“CreditAccess Grameen Limited Q4 FY2021 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the CreditAccess Grameen Limited Q4 FY2021 earnings call hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Renish Bhuva from ICICI Securities. Thank you, and over to you, Sir!

Renish Bhuva: Thank you Mallika. Good evening everyone. Welcome to CreditAccess Q4 Conference Call. From the management team, we have with us today Mr. Udaya Kumar – Managing Director and CEO, Mr. Balakrishna Kamath – CFO and Mr. Nilesh Dalvi – Vice President Investor Relations.

We will start with the opening remarks and then open up the call for Q&A, I thank the management for giving us the opportunity to host the call. I will now hand over the call to Mr. Udaya. Over to you Sir for opening remarks!

Udaya Kumar Hebbar: Thank you Renish. Good evening to everyone. I thank you for taking time and joining us today to discuss our Q4 and Full Year Financial Performance. We completed the financial year 2021 on a very positive note by achieving the target on loan portfolio growth, robust operating profit, significant containment of asset quality stress, improving collections trend and strong liquidity and capital position.

Our consolidated gross loan portfolio increased by 13% Y-o-Y to Rs.13587 Crores with an active borrower base of 39.12 lakh. Adjusting for the accelerated write off of Rs. 273 Crores, the gross loan portfolio would have been grown by 16% Y-o-Y to Rs.13860 Crores. Our consolidated customer base declined from 40.55 lakhs to 39.12 lakhs primary due to write-off over 2.4 lakh delinquent borrowers. Our new borrower additions have gained good traction in the second half of FY2021. Overall, we added total 4 lakh new borrowers at CAGL primarily during second half and at MMFL we added 1.6 lakh borrowers during the same period.

Business momentum continued in Q4 with consolidated disbursement of Rs.4726 Crores up by 42% Y-o-Y and up 3%. New disbursal made in FY2021 accounts for over 69% of overall portfolio displaying stable asset quality. Collections continued to improve our monthly basis increasing from 91% in December 2020 to 94% in March 2021 in CAGL, overall collections including arrears at 97% in March 2021 at CAGL. Similarly, at MMFL collections improved from 86% in December to 90% in March 2021 with overall collections including arrears at 91%. In line with improving collections trend there was significant reduction in our overdue portfolio.

At CAGL, PAR 0 declined from 11.8% in December 2020 to 5.2% in March 2021 and PAR 60 of 3.5% and PAR 90 at 2.9%. Excluding Maharashtra PAR 60 was 2.7% and PAR 90 was 2.3%. As on March 2021, we had 94.8% full paying, 3.3% partially paying and 1.9% non-paying customers. This has again validated the strength of our business model and our capability to successfully navigate through potential stress event.

At MMFL PAR 0 declined from 14.8% in December to 14.0% March 2020 and PAR 60 of 6.7% and PAR 90 of 4.7%. Though the reduction of PAR was relatively lower in MMFL, there was higher proportion of partially paying customers where we expect to see continued reduction in overall exposure. We have put a strong support system to closely engage with field team of MMFL to ensure strict monitoring and control.

Talking briefly about operating profitability in Q4 FY2021 with consolidated total income grew by 51% Y-o-Y from Rs.482 Crores to Rs.726 Crores. Consolidated NII grew by 59% Y-o-Y from Rs.292 Crores to 464 Crores, despite derecognition of Rs.20 interest income on Stage III portfolio. Preprovision operating profit grew by 83% Y-o-Y from Rs.180 Crores to Rs.329 Crores. We booked an upfront gain of Rs.89 Crores from direct assignment of Rs.1129 Crores in Q4 FY2021. Despite a challenging business environment, we were able to exude confidence from lenders in purchasing portfolio. We have currently utilized around 50% of our overall DA sanction.

On the back of strong interest income growth and upfront gain from BA we decided to build sufficient balance sheet cushion ahead of the impact of the second wave of COVID-19 pandemic. We decided to recognize accelerated write off of more accounts worth Rs.273 Crores with 180 days DPD and no payment since January 2021, which resulted in additional credit cost of Rs.64 Crores in Q4 FY2021. Further, we also decided to create additional COVID buffer of Rs.112 Crores which is 0.9% ECL on a consolidated basis. Our total ECL provisions on consolidated basis stood at Rs.623 Crores amounting 5.01% of portfolio against GNPA of 4.4%.

For the full year, total income grew by 45% Y-o-Y from Rs.1706 Crores to Rs.2466 Crores. NII grew by 36% Y-o-Y from Rs.1092 Crores to Rs.1484 Crores, although there is derecognition of total Rs.99 Crores interest income of Stage II portfolio during this period. Preprovisioning operating profit grew by 36% Y-o-Y from Rs.699 Crores to Rs.952 Crores, impairment and financial instruments increased from Rs.237 Crores to Rs.717 Crores including accelerated write off which includes write off of Rs.461 Crores out of which

Rs.142 Crores on account of pre-COVID GNPA and Rs.273 Crores was accelerated as explained earlier.

Further, there was additional Rs.112 Crores of addition COVID buffer. Conservative provisioning and write-offs led to profit after tax decline from Rs.336 Crores to Rs.131 Crores. Adjusted profit after tax excluding, impact of accelerated write off and additional COVID buffer was Rs.260 Crores in FY2021 translating into adjusted ROA of 1.8% on consolidated basis.

Adjusted ROA at CAGL was 2.2% in FY2021 while it was 0.3% at MMFL. Profitability at MMFL was lower on account of couple of reasons. The interest income of MMFL declined primarily on account of reduced lending rate, interest income derecognition and lower interest accrual due to increase in overdue portfolio. Further there was an increase in employee expenses in line with the expanded over employee base. The credit cost was also higher due to gradual convergence with provisioning policy with CAGL and also due to legacy portfolio impacted by Gaja hit last year. While the written off portfolio of FY2020 was Rs.64 Crores, it included Rs.24 Crores on account of pre-COVID GNPA.

We are closely working with MMFL team to align the operational model with CAGL. A detailed process integration roadmap has been devised to ensure seamless transition to target operating model based on individual business strength and expected synergies. Integration roadmap outlays the alignment of products and technology architecture, alignment of branch infrastructure, alignment of process and policies, change management, business sensitization and field force training, manpower assessment and role redeployment and phase wise conversion of branches into CAGL. The process integration is expected to complete in first half of FY2022 which will subsequently result in alignment of MMFL operational profitability, asset quality and credit cost with CAGL in FY2023.

On the liquidity front, I happy to note that at consolidated level, we have maintained liquidity of over 15% of gross AUM and holding undrawn sanctions over Rs 2614 Crores.

We need to talk about the current unprecedented situation. The sudden spread of second wave of COVID-19 pandemic has again created a challenging operating environment for us. We are participating in the collections to witness a temporary decline in Q1 in FY2022 on account of several intermittent lockdowns, restrictions being imposed across various states. The situation impacts the customer ability to manage their activity as well as our ability to ensure seamless meeting the customers. As a precautionary measure we have already taken accelerated write off and built additional provisional buffer in FY2021. Our preliminary estimation is that COVID 2.0 is quite devastating but impact on business will be lower compared to FY2021. We draw confidence based on official learning acquired last year to effectively manage their payment behavior of followers in case of long duration moratorium. Post first wave we have revamped and updated our customer contact database enabling us to reach almost every customer through phone. We have also enabled various mechanisms to enable cashless system for customers. We also enabled on-field disbursement which did not require customer to visit our branch. Further customers with weak cashflow and having exposure to impacted sectors mostly have defaulted in first wave and have not been provided any incremental credit.

The remaining customers have greater resilience to withstand impending economic downturn, if any, already managed to navigate during last financial year. Significant effort from MFIN have ensured MFIs to be listed at essential services at many states and working on enabling this in other states also. This reinforces recognition by the government on the importance of MFIs in enabling financial stability at the bottom of the pyramid.

CAGL has proactively maintained its strong engagement with local administration who have made contribution to fight COVID through CSR initiatives to support the community.

Our focus in these testing times will be safeguarding the health of our employees and customers. The company has announced various measures to support our employees. The company shall reimburse the vaccination cost for all employees and one immediate family member. If any employee is not under ESIC or insurance, the company will reimburse an amount of Rs.50000 if such employee is tested positive for COVID. If admitted to hospital, current monthly salary will be paid in advance, further 14 days of quarantine leaves and 28 days of COVID leaves will be granted over and above the sick leave.

All employees are ensured with adequate health cover and life cover of three times of their cost to company. Additionally, in an unfortunate event where any employees succumb to COVID, company will check if any immediate family member can be offered an employment at CAGL, or we shall extend their monthly contribution for a period of 12 months equivalent to the last drawn salary of the biggest employee.

We shall closely evaluate the business impact of the ongoing disruptions and derive our experience of FY2021 to stabilize our business. We shall evaluate and support our borrowers using various measures as announced by RBI on May 5, 2021. Our strong balance sheet, adequate liquidity and capital position, stable credit rating, strong relationships with our lenders should enable us to receive continued funding access over coming months. Further our demonstrated capability of managing asset quality stress witnessed multiple times in the past backed by our resilient business model coupled with highly experience stable management team should give comfort and confidence to our lenders investors and various stakeholders.

With this overview, I would now like to open the forum for questions and answers. Thank you very much.

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

Shreepal Doshi: Good evening Sir. My question is with respect to the collection efficiency in the month of April for CAGL and for Madura Microfinance and what would it be in the key states such as Maharashtra, Karnataka and Tamil Nadu?

Udaya Kumar Hebbar: There is a decline in the collection efficiency particularly in the second half of April 2021. We cannot exactly say it is going to be a trend because many of the interruptions are there, so it is about 5% to 6% decline over March actually, exact we have to still evaluate because there are lot of places where we have given some delayed time for the customers and we have also given repayment holidays in some places, so it is not a correct picture but overall, about 5% to 6% reduction from March number.

Shreepal Doshi: My second question is with respect to out disbursement trends, while we have seen 4% decline in the customer base on a year-on-year basis but our disbursements during Q4 were really strong, I mean specially in the month of March, so our overall outstanding per customer has increased on a year-on-year and sequential basis, so what explains this like have you got more comfort on the existing customer base or how do we look at this?

Udaya Kumar Hebbar: Shreepal, actually first half year, we have not acquired any clients, all of you know about it but second half we have acquired 4 lakh new customers. The drop is basically for 2 reasons, one is a natural attrition, normally 5% to 8% natural attrition is there and almost 2.4 lakh customers we have written-off. Thirdly, disbursement will be majority renewals with the increased limit wherever needed because we go by the vintage linked increase and we have more than 10 lakh customers who are more than three years with us obviously that will keep increasing and the fourth point is our portfolio per customer has been increasing by 10% to 12% CAGR over five years, so there is no deviation trend on that. It is because first six months we are not disbursed, second six months we are disbursed, there is a small aberration because with the ongoing basis, it would have been about 10% to 12% variation, it looks little higher now because six months we have not disbursed, disbursed majority between Q3 and Q4 that is automatically outstanding for customers little high for the disbursement which otherwise would have done in Q1 and Q2, otherwise we have not seen any specific deviation in this particular trend.

Shreepal Doshi: So, the bucket wise ticket size increase would be by 10% to 15% what you are indicating, right?

Udaya Kumar Hebbar: It is not ticket wise. We do not go by the ticket wise. We do it by gross portfolio per customers because we provide a credit line to customer and customers can access multiple loans if they need, so that is why we go by GLP per customer. For example, as the customer may have one or more products because product suite is like that over the last eight years.

Shreepal Doshi: Right, okay and Sir, this quarter we have got like the liquidity on balance sheet is high, so that is at 16% to 17%, so that is the purely prudent practice that we are doing for this quarter or incrementally we would want to maintain a higher liquidity on balance sheet?

Udaya Kumar Hebbar: When we met the board in January Q3 I mean considering that we are still not out of COVID and still there could be some liquidity crunch might come, that is why we thought fit to maintain 15% till March 31, 2021 and looking at the eventuality, we can reduce it but currently again we are sitting with another serious issue that is why we would continue to maintain close to 15% till June end and then review further because it is very important to conserve sufficient cash flow even at the cost little extra negative carry for that.

Shreepal Doshi: Right. Thank you so much Sir and good luck for the next quarter. Take care.

Moderator: Thank you. The next question is from the line of Kashyap Jhaveri from Emkay Investment Managers. Please go ahead.

Kashyap Jhaveri: Thank you very much for the opportunity. A couple of questions, one, I have a question on this chart on page no. 6 of your presentation on the left hand topside reduction in the percentage of portfolio of non-paying customer, just wanted to know how does one read this, that is 95% of the customers have done whatever has been due until today or for March 2021 whatever demand was raised they have paid that amount?

Udaya Kumar Hebbar: It is due for the month of March and collected for the month of March.

Kashyap Jhaveri: Okay, so some of these might be still overdue because you would be adjusting that money with if any old EMI is still overdue?

Udaya Kumar Hebbar: That is what. If I collect that old money then it goes to next overdue. You can see there are two, one blue line and green line. The blue is due for the March, collected for March; for example, 94%, 97% is including the overdue collections.

Kashyap Jhaveri: The left inside chart?

Udaya Kumar Hebbar: Correct, the left chart there are three December, January, February, March, March 94% is due for March, collected for March whereas 97% is shown which includes the earlier payments if any somebody would have paid, that is actually moved up to 97%.

Kashyap Jhaveri: Second question is on the next slide, in terms of overdues or let us say PAR I understand that you mentioned that April has been slightly weaker than March but looking at the lockdowns in phased manners across various geographies, how do you expect this PAR 30 and PAR 60 to pan out over a period of next 12 months?

Udaya Kumar Hebbar: It completely depends on how fast the COVID will come down. There are various scientific and the research says that if wave might come down very fast also, based on that we need to see. That is why we say Q1 may be in terms of collections may be difficulty then the moment the things are normal, your accessibility to customer is normal once the ability to meet with the customer is high obviously we will come back to normalcy. It is quite difficult to predict for the entire year at this point of time because we are just suddenly seeing this whole issue, it depends on how fast; for example, if you see Maharashtra, it started somewhere in three weeks back and already started stabilizing or reducing the total COVID cases, may be a similar case in Punjab or Chattisgarh, so it looks like it grows very fast and then coming down, I am not a specialist on that but if whatever projecting is true and if things are coming down back to bit off stability by May end or June, I think we will have at least three quarters available for us. If you see the last year, I think the whole industry has got two quarter or all five months only even then industries turned around, even we turned around well, we are able to come back to by and large normalcy by December another state Maharashtra by March, so it is what we projected last year, we were able to do but right now it will be difficult to say that if we are able to come back by quarter end reasonable with this operation I think three quarter is definitely sufficient for us to come back to normal.

Kashyap Jhaveri: The last question is on Maharashtra, it has been lagging for quite some time, I am saying not only March but in December also that was behind the curve, any particular reason why it is been moving behind the other states for quite some time now, I understand that recently it might be COVID but even in December it was behind the curve?

Udaya Kumar Hebbar: I think we explained this very well in the last two in fact all the three concalls. Maharashtra was struggled with almost four and a half months of prolonged lockdown during COVID first wave. That has impacted the whole business environment in many districts and then on top of that there was flooded situation in September, October when the lockdowns were stopped, so which has an impact in the business, that is why we always anticipated Maharashtra will come back to near normalcy only by March. It will not come by December and non-Maharashtra all states would come back to near normalcy by December. I think we are by and large there if you see December, other states we can see in the same slide, PAR 0 was 9%, whereas PAR 0 in Maharashtra reached 8.7% in March. So there is a three months the gap between Maharashtra and non-Maharashtra which was predicted by us earlier also.

Kashyap Jhaveri: Thank you so much. That is it from my side.

Moderator: Thank you. The next question is from the line of Abhishek Murarka from IIFL Capital. Please go ahead.

Abhishek Murarka: Good evening, My first question is if I look at your collection efficiency basically asset quality performance for MMFL and CAGL, what I notice is that in MMFL the performance is a little weaker, the Stage III has gone up and the PAR numbers have not reduced as much as they have reduced in CAGL between let us say December and March, so anything particular in MMFL which is not working out or any geography etc., while you are seeing higher stress?

Udaya Kumar Hebbar: Actually, MMFL was always had a bit of lag in collections from the beginning because of the different model we operate there. We are yet to get aligned with the running model which was the monthly model and therefore we have for little late, if you see the lag in collections also quite high. If you see part payment is still about 12%-13% of collection, so that is why eventual write off is not high there, but the delay in recognition and some delay in collection, the lagging collection happening but otherwise it is still at par with the industry.

Abhishek Murarka: Okay and Stage III there we are still increasing, so probably that trend will continue?

Udaya Kumar Hebbar: No, it is Stage III increase now because it is at 90 dpd. In CAGL it was increased in December. Here it is given March. There is a gap in the quarter. So there is a slight delay which are there because of the monthly model and also due to NPA recognition policy, CAGL recognizes NPA after 60 days and MMFL after 90 days, that is why the gap of one quarter.

Abhishek Murarka: Okay and Sir the other thing I just wanted to ask is that of the customers that you have acquired in this quarter, what geographies have you acquired and what is the disbursement ticket size to the newly acquired customer?

Udaya Kumar Hebbar: Our new customer is on average will be 30,000-35,000 because we go by 40,000-45,000 limit and restrict the first loan between 30,000-35,000 and sometime lesser also, average may be about 30,000-35,000, may be Nilesh, if you have the details, I will send you, but the majority of this acquisition is happened in the newer states particularly Gujarat, Rajasthan, UP, Bihar, Jharkhand and Odisha and then to some extent Tamil Nadu also and Kerala also but very less in fact there is a negative growth of customers in Karnataka and Maharashtra particularly other states with this disbursement happens when the acquisition was happened because Maharashtra particularly we did not allow the employees to add new customers because wherever delinquency is or the collection efficiency is less than 90%, we said, no new customers to be added, is to manage and enhance the sustainability there, then and only the collections is better there we enable the branch to acquire the customer, so by default Maharashtra is lesser, Karnataka is by and large very low and even otherwise South of Karnataka was very low, majority other states. If you see one more slide I do not remember which slide, we also have given the bifurcation of the new disbursement and disbursement between the old branches and the new branches also, which is I think 61% growth comes from the new branches, new products and automatically tells that it is the new geography.

Abhishek Murarka: Just squeezing in the last part of the question, basically this 32,000-33,000 is the average disbursement ticket size for the newly acquired customer, on an implied basis, what would be the ticket size or outstanding for the older customers?

Udaya Kumar Hebbar: It could be between 35,000 and it may go up to50,000 also. We have about 12% to14% customers having outstanding more than 50,000. There will be more than four years or five years period. So, it is actually as the vintage keeps going up, the limit also keeps going up but subject to overall limit of all MFIs what they borrow. So, what we observe is more and more vintage customer predominantly take with single with us and then try to take that higher money from us, so almost 40% or 43% of our customers are only with that, so obviously they will be probably take the higher of churning based on the vintage.

Abhishek Murarka: Got it, thank you so much Sir. Thank you for the time. All the best.

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

Sarvesh Gupta: Good evening Sir. Thanks for taking my question. Sir, I had two questions, one is a bit subjective, so one way to look at things as they stand is that last time, we had a big hit in the first two quarters and then we had to sort of quarter to revise, which we have done well. Now, again we have may be a hit of one quarter and then you will have three quarters to do well. But the other way to look at it is that, if I give a medical sort of a thing somebody was already in ICU and now again, they have been hit. So, your category of customers have now been hit twice and given that sort of the scenario do you think that this going to compound the problem or this is sort of a similar problem as last year. So, this is number one, because this has happened twice now. Second is, you have an old portfolio which was there till June and then you started disbursing to may be a better category of customers. So, how do you juxtapose this sort of analogy where you had new portfolio and now you have old portfolio, so how do you expect this new portfolio which was presumably not so much hit in the first wave. How, does that portfolio, how can that perform? So these are my questions.

Udaya Kumar Hebbar: So, we both are subjective. The first one is interesting may be the same analogy, if somebody has once COVID probably he will get more immunity and there is a less chance of getting one more COVID. So, once we learn the lesson in the first one year probably that lesson will help us to manage the second also, so that is what I would put it back, same is with the customer. The customer would have struggled and survived and able to come and pay back the money, I think this time also she will again navigate further and pay back the money because she wanted to keep credit strictly, that is why your 94% customer who have struggled probably but they have come back to normalcy they have paid that despite six months of difficulty that itself shows that there is a resiliency with this customer and there is high chance of they will start coming back as the situation in force. Similarly, from the employee and the management side that the experience what he has gained over the last one year in managing and navigating this also will be an experience. Third, is you look at the situation on the ground, one is huge interference of MFIN and the associations with regulators, with the government, speaking specifically of MFI's again and again there is a support for MFI's the last week they have come back and said Government of India when they unlocked last year May 1, actually MFI's can operate, that means there is a recognition. Now Government of Maharashtra or Karnataka Government or Jharkhand or Bihar when they do a lockdown they say banks and MFI's can operate. So, that itself gives a lot of different positive factors of microfinance. So, we will be able to manage better that is what my assumption here and on the new and old customers was same thing. Old customers definitely behave resiliently, able to come back to normalcy and as of three months probably he/she knows that okay, I have difficulty but I can back there and I can navigate and that in the microfinance almost 70%-80% of the customers are in essential services and they are operating in their local, rural, their own ecosystem and their cash still coming, may be a little lower than earlier but the moment they improve they will come and as it will be normal that is why we believe both the category of customers will be able to come back to normalcy.

Sarvesh Gupta: Would you say the new category of customers are a bit better than the old category of customers, would you say that they are of higher quality and hence their ability to withstand the second wave should be of a higher order than what we witnessed in our old category of customers in first wave?

Udaya Kumar Hebbar: I would say old category of customer will be more resilient because they are experienced already. New category of customers not necessarily completely resilient at this point because we are yet to test them, but our experience is like our customers because they are operating in the essential services and their ability to come back to normalcy is much high which happened earlier also. The new also should be able to come back because they also gone ahead or experienced this in the last year already once. Whether it is with us or somebody else or without borrowing also, they would have experienced the situation once already so, that is learning will help.

Sarvesh Gupta: Thank you Sir, and all the best for the coming quarters.

Moderator: Thank you. The next question is from the line of Nikhil Rungta from Nippon India Mutual Fund. Please go ahead.

Nikhil Rungta: Sir, thanks for this opportunity. Sir, you already answered that how you are tackling this wave 2 and the way we have seen wave-1 I believe we will sail through the wave-2 and even if there is wave-3 we will clear that as well because there are talks that wave-3 will also come. So, my only question is till now whenever we talk about the MFI industry everyone talks including you talked that MFI industry have been through various events in the past 10 year to 12 years but those events if we see they were a particular event and it was at a particular point of time whereas this event is altogether different and it is elongated over one, two or three years whatever it maybe we do not know when it will end. So, 1) what is the learning from this type of events and 2) what type of future do you see for the MFI industry?

Udaya Kumar Hebbar: I think it is very pertinent question Nikhil. I agree that we need to be ready for faster event of such case. We need to be more efficient, we need to be more resilient in terms of operations and we need to be ready for bad time all the time, that is one of the things we always worked in CAGL. That is what I always talked delivering in the good time can be done by anybody but delivering in the bad time is very difficult that should be the character of the company, which we are trying to overcome that. I am not sure this is the think of microfinance industry probably it will be specific for many industry. So, it is not necessarily only microfinance industry this kind of situation. Slowly I think the regulators also may be able to come and help and then create a space for little higher revenue in terms of margin which is the one we are also trying to request as an association to RBI because we encountered largest credit cost because of this in the last year and next year. So, one of the requests what we have been lobbying with the regulator is to enhance the revenues for this, I mean, margin at least increasing and in the mean time regulator already working on harmonizing of business probably already we have from industry delegation has given the request of our recommendation to what should be the components for harmonization. So, I think the regulators also are looking at that we refer some of these regulations also there may be some benefit in terms of while doing the harmonizing regulation. That is one side, other side definitely we should be resilient, we should be efficient, our entire process of technology delivery models should be effective for the better, that definitely it is required and that we are working on that any way to see we continuously work on that efficient factor.

Nikhil Rungta: Sir that direct assignment transaction which we have done is just for creating liquidity as of now or we will be continuing during a DA transaction forward?

Udaya Kumar Hebbar: So, it is an important instrument all the way because we always believe that up to 15% to 20% of the total liability can be short-term and the balance should be medium and long-term and then majority should be long-term this was overall, right. So, that is one measure, second is when the bank sanctions money in the last quarter's obviously some of them we oblige them. This year we have a good sanction. I think for the banks also this year is a very important because they could not do many DA transactions with many institutions so, there are some insistences that we need to help them so we did that. That is why we utilized only 50% of the sanctions what we have with us, so that is why some of them may be available for us to use in the next Q1 or Q2 also. But it is basically on the liquidity front to have at least 15% available as of March 31 that is very important for us because we are not sure where we are going in Q1 and Q2 that is why we want to create sufficient liquidity as of March.

Nikhil Rungta: Got it Sir. That is helpful. Thank you So much and all the best.

Moderator: Thank you. The next question is from the line of Hitesh Gulati from Haitong Securities. Please go ahead.

Hitesh Gulati: Thank you for giving me the opportunity. Sir, my question is for the disbursements that you have done in Q4, especially in the month of March, what is the trend in terms of collections that we have seen in April. Are these customers more likely to sort of stop paying because they just got the loans, and they are experiencing the lockdown and their business got disrupted?

Udaya Kumar Hebbar: As I said almost 70% to 80% of them are in essential businesses, their business has not stopped and the way it is not that all of them are first borrowers and they are all with the company for a long and they have taken renewal. May be let us say March if I take as 50000 customers may be new, but we would have disbursed more may be 3 lakhs to 5 lakh loan. So, they are with us and many of them are with us for more than two years, three years, and four years kind of thing so it is not that they just borrow and take advantage and go. If that is the case, all of them would have taken when there is six month moratorium everybody would have taken the route of defaulting, right? So, I think we should be understanding their situation, we should recognise the situation and by and large, there is no such trend that new customers are defaulting. Overall, we saw about 4% to 5% but I still will not be able to tell that they will default because some of the cases we have given deferment, some of them because some places, some districts administration not allowed to do anything only two days they can come out for two hours kind of thing. So, there was many, many impediments are there we should not treat them defaulted at this point of moment. I would treat that either inability for us to collect or their inability not to access and pay, so we should treat at that level at this point of time from April.

Hitesh Gulati: Thank you Sir. That is it from my side.

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

Akshay Ashok: Sir, congratulations on a good set of numbers. I just wanted to know now that group meetings and all are not happening, is that all our group meetings and all happening in rural areas?

Udaya Kumar Hebbar: No. Right now we are not allowing any group meeting. They are asking one among the group member to keep the money ready and our employee will pick up. So, we connect with them over phone and we talked to them, but we have not allowed them for any group meeting anything at this point of time. This time very important for the health of our customers or employees because the COVID is also quite fast spreading in rural also we should be extremely careful over that point.

Akshay Ashok: Okay, so are the online collections have you enabled it?

Udaya Kumar Hebbar: Yes we have enabled the online payment availability on the customers but that adoption is very low. Only case of our retail customers are it is high but whereas micro customers it is still very low may be 3000, 4000 customers pay it online because, money has to be in the bank account for them to pay, because that they cannot do it, because going to bank and depositing the money itself is a challenge for them at this point of time for them so, adoption is quite difficult.

Akshay Ashok: Thank you so much. Thanks.

Moderator: Thank you. The next question is from the line of Umang Shah from HSBC Securities. Please go ahead.

Umang Shah: Thanks for the opportunity and thanks for the detailed disclosures in the presentation. I just wanted a clarification on a data point, so our total restructuring book is Rs.75 Crores or that is our CreditAccess and what could be the restructuring for MMFL?

Udaya Kumar Hebbar: Nilesh, MMFL we have not done restructuring, right?

Nilesh Dalvi: Yes.

Udaya Kumar Hebbar: We have not done the restructuring. It is only for CreditAccess.

Nilesh Dalvi: Yes.

Umang Shah: How to read, so basically 99.5% of the restored book is less than 30 DPD is it?

Udaya Kumar Hebbar: Yes, they are less 30 DPD. Basically, close to 98% collections there Umang, but still that is in Stage III and provided for.

Umang Shah: So, the provision would be as per the RBI policy of 10%?

Udaya Kumar Hebbar: No, it is provided in Stage III. I think we provided 75% of that.

Umang Shah: On the whole portfolio?

Udaya Kumar Hebbar: Yes.

Umang Shah: That could be a part of the ECL buffer of Rs.103 Crores that we are referring to?

Udaya Kumar Hebbar: No. Not that is under normal ECL.

Umang Shah: So, the Rs.103 Crores of or Rs.112 Crores of additional provisions that we are talking about is over and above these provisions?

Udaya Kumar Hebbar: It is overlay. It is a complete overlay. Within the ECL all this Rs.75 Crores that Stage III provisioning has been made already.

Umang Shah: Thank you so much.

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

Nidhesh Jain: Thanks for the opportunity Sir. Sir, the collection efficiency number that you mentioned for the month of April is around 4% to 5% down from March. Is it for the full month of April or it is second half of April we have seen that decline?

Udaya Kumar Hebbar: See, actually it is basically repayment problem is only second half. The first half is as equal to March number Nidhesh.

Nidhesh Jain: Sure, and the customers from where we have not been able to repay is there any correlation with their repayment behaviour during the first wave or it is completely different set of customers?

Udaya Kumar Hebbar: Nilesh we have any analysis, I do not think we did because it is just last two weeks so I do not think we did analysis but maybe you can be in touch with Nilesh and he can give you the data. I have not got at this point of time. Sorry, that we do not have that data right now.

Nidhesh Jain: Nor worries Sir. Thank you, Sir.

Moderator: Thank you. The next question is from the line of Pranav Gupta from Aditya Birla Sunlife Insurance. Please go ahead.

Pranav Gupta: Sir, good evening and thank you for the opportunity. Hope everyone is okay from your side. Sir, just two quick questions, first is you said that the industry has made their recommendations or their request to the regulator regarding the harmonization of rules and in the same breath you also said that you would prefer to have a little more higher income stream in order to probably say it buffers for eventualities that happen in MFI. So, as a vendor who would you prefer the spread cap for MFIs to be removed or would you prefer the spread cap to be applicable to the other lenders who are not currently under this cap regime? That is the first question. Second question is specific to the state Bihar, so while collection efficiencies have been quite strong there, we have seen very strong growth across the industry in this geography. Just wanted to understand how the competitive dynamic is there on the ground and whether we are seeing any particular pockets where there is overheat in terms of lending or larger ticket size, anything of that sort? Thank you.

Udaya Kumar Hebbar: The first one is about the recommendation. This is one of the demands by MFIs was to harmonize basically to create a level playing field in terms of microfinance business but for the common asset class there should be common rules this is what one of the propagation we have been doing. It is also interest rate, it is also the margin cap or it could be total lending, like for example NHB has their own rule for housing loan. So, it can be asset class regulation rather than the deleveraging. So, that is what the requirement and the request. We do not know what RBI is thinking about it. But what is that we prefer is the level playing fees and also to have a little higher income ability because the credit cost when the regulators made the credit cost was near to may be 35, 45, 50 when the regulation was made probably at that time they have taken that as a possible cost but today last and this year, last year it was close to 4.5% to 5% and this year also again it will be definitely more than 2%-3% because of the current situation. So, that makes the MFI's lessor ability to perform and deliver the returns, so my strong belief is that there is a space for regulator to increase the NIMs from 10% or a margin cap to 10% to at least 12% that is what one of at least if you ask me that will be our view. On Bihar our recovery was quite normal, quite good, close to 99% till March or even till 3 days back, so three day back there is a lock down and initially there was no space for microfinance to operate but thanks to MFIN intervention today I think they allowed MFI's can operate and they can be part of the essential service. We are not seeing any specific overheat or anything but we have seen some places of tribal and all we need to be careful, in some places, some tribal belt those for the Jharkhand State and all, so there we should be extremely careful because again Assam experience one need to be thinking carefully where if the tribal area I think MFI should not go and lend heavily and we should be careful, but for that we are not seeing any other impact so far for the industry or for any institution.

Pranav Gupta: Thank you so much. I will join back in the queue.

Moderator: Thank you. The next question is from the line of S. Parameswaran from Jefferies. Please go ahead.

S Parameswaran: Thank you. Sir, I have two questions, firstly what percentage of your customers are more one loan from you? That is my first question. Secondly, what is your approach towards restructuring and obviously the customers businesses that been impacted, their operations on the ground they also have been impacted and you cannot offer a moratorium unless we do a restructuring. So, in this restructuring 2.0 what is your approach going to be?

Udaya Kumar Hebbar: Parameswaran, see for every customer can have more than one loan actually in the process because for our customers this is a credit line. It is not a loan actually. We define a credit sale based on the vintage and at the vintage they can borrow for their income generation, education for their kids, medical emergencies, building toilets, connecting water, repairing home, any of their lifecycle is they can borrow within that limit. That is why there is no need for us to track why customer have more loan and all for long there that group approves the customer has the cash flow we keep giving. That is why we really need not check that kind data that is what we do because the facilities upfront provided to them this is the bouquet of products you can use whenever you want based on the limits for these customers not necessarily, they draw the money but, extends is given to them whenever they need. But still our outstanding more one loan may be 20%-25% customer only, may be. I do not know raised or may be that much only because even though they can draw money but actual drawn is only 25%. We said that we give that only that is what we thought we enabled restructured, our customers have difficulty but we did very less because in microfinance unless customer starts a small payment restructuring is nothing but postponing the problem. So, only where they are ready to pay at least one week, two week, three week, four week some amount then we restructure based on their what is their capacity or have ability to pay that is why we did only about Rs.75 Crores so far and that the last quarter but last quarter and this year together for firstly we are actually getting almost 98% collection in those accounts. So, the factor is that, so if a customer is not able to pay money nor we are not able to reach them and given this there is no point in restructuring those accounts, so that is only postponing the problem we do not want to do.

S Parameswaran: Last time you had of course the benefit of moratorium this time you cannot offer that unless you explicitly restructure which is why I was asking and obviously your customer base has been impacted and your operations also has been impacted?

Udaya Kumar Hebbar: For a customer, his ability to pay is there, see all will not defer. They come and start payment maybe we will give them a repayment holiday if required for some period if they want. That is allowed as per the current RBI whatever policies. So, maybe we can give them a four week, you can call it moratorium, or you can call it a deferred payment we can work on that. So, there is enough space is given to a lender if they want and there is a period it is given to them. I think we can work with the customers based on their requirement and do the required facilitation for them.

S Parameswaran: Thank you so much.

Moderator: Thank you. The next question is from the line of Vikas Radhakrishnan from Citi Bank. Please go ahead.

Vikas Radhakrishnan: Good evening. Thank you for the opportunity. I have a couple of questions I will keep them short. I just wanted to understand with the current second wave ratings, what is the outlook for disbursements over the next couple of months for you? My second question is an extension of the previous answer, you said you could look at possible restructuring or a moratorium or a payment holiday. What percentage of your portfolio do you expect that you would extend such flexibility?

Udaya Kumar Hebbar: Radhakrishnan, both questions are little difficult to answer right now because it depends on how strong is the COVID wave in the next one month. How strong will be the local restrictions at this point of time because if the restrictions are higher obviously we cannot disburse the amount and restrictions are longer then obviously at least two months, three months, disbursements or collection can impact? So, I think we need to see through this and based on the situation we will go on. Obviously, first quarter will be lesser disbursement and lesser disbursement that the collection may be impacted the operation may be impacted. So, we are expecting this whole situation will be shorter period and not the longer period. So, if the shorter period intervention we have seen customer's ability to come back to normalcy is much faster. We have seen many times that this has happened, let us say there was a flood situation for 10 days-15 days, or there was drought situation, we have not seen a problem in our book, right. So, shorter period will not impact your book and customers will come back and behave normally and they will be able to do and the RBI is whatever they are doing is only additional facilitation to work, to handle in a better way within the regulations also.

Vikas Radhakrishnan: Thank you.

Moderator: Thank you. The next question is from the line of Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

Vivek Ramakrishnan: Good evening. Thank you for the opportunity. It has been a long call but here is one question in terms your customers own resilience. Is the resilience depended on the line of businesses that they do and have you found out some data, saying that we will give more to let us say certain lines of businesses they do and not give to other lines of businesses. Like for example, tailoring could be discretionary, but milks cow should be something which is more essential. So, is there any data which is helpful in that direction? Thank you.

Udaya Kumar Hebbar: This is very pertinent for a retail kind of business whereas individual kind of business but in a group business there we derive a social collateral from the group and then the loan is trailing even the tailoring business means he will be buying one tailoring machine in Rs.15000 it is not a tailoring industry with 5-6 tailoring machines. So, that is why it is slightly different than what is cycle of business is eventually. So, this has a group lending is a social collateral among to women's having each other, speak them every day, so some days default if lesser because of that additional compound. That is why we do not differentiate between the businesses so long the group is strong, the group is paying, group delivery is good, group behaviour is good. So, on the individual basis the retail book obviously we see such kind of differences.

Vivek Ramakrishnan: Thank you Sir. That was very useful. Thank you.

Moderator: Thank you. I would now like to hand the conference over to Mr. Uday Kumar Hebbar, for closing comments.

Uday Kumar Hebbar: It is a long day. Thank you for your participation. We recognize the anxiety of our stakeholders due to the current unprecedented and uncertain situation. However, we are confident that we derive the experience of our team and navigate as we do it our business resilient. Our team has proved this last year which gives us strength and confidence to prove again. Take care and stay safe both you and your family. Thank you and have a great evening. Thank you.

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