"CreditAccess Grameen Limited Q1 FY2023 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to CreditAccess Grameen Limited Q1 FY2023 Earnings Conference Call hosted by ICICI Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Renish Bua from ICICI Securities. Thank you and over to you Mr. Bua!

Renish Bua: Thanks Nirav. Good morning to everyone. Welcome to the CreditAccess Grameen Q1 FY2023 Earnings Conference Call. From the management team, we have with us today Mr. Udaya Kumar, MD and CEO, Mr. Balakrishna Kamath, CFO and Mr. Nilesh Dalvi, VP, Investor Relations. I will now request Mr. Udaya Kumar to take us through the brief highlights of Q1 FY2023 and then we will open the floor for a Q&A. On behalf of ICICI Securities, I would like to thank the management team for giving us the opportunity to host the Q1 FY2023 earnings call. I will now hand over the call to Mr. Udaya Kumar for the opening remarks. Over to you Sir!

Udaya Kumar: Thank you Renish. Good morning to everyone and a very warm welcome to our conference call to discuss the financial and operational performance of Q1 FY2023. Before we begin the discussion on Q1 FY2023 results, I would like to urge you all to go through our FY2022 Integrated Annual Report available on our website which provides a deep dive into the resiliency of our business model, cross cycle returns ratios and sustainability reporting. The microfinance business has a vital role to play in the long-term development of the society at the bottom of the pyramid. Hence, it is important for us to make ESG an integral part of our business strategy going forward. We have always strived towards maintaining high corporate governance standards with an independent board structure and extensive board supervision through the required committees. We have strengthened our ESG policy framework for effective identification, monitoring and addressing of ESG opportunities and risks. Our strategic CSR initiatives help us to work towards the betterment of our community and also address environmental and climate-related opportunities and risks in the future. Last year, we completed an extensive exercise to identify our GHG inventory including Scope 1,2 and 3 emissions. Based on these baseline figures, we aim to establish emission reduction targets and take various emissions offsetting measures through our lending business along with our CSR activities in the future.

We believe that the rural economy is poised for robust growth, owing to a healthy monsoon, improved agriculture output with higher price realizations, and a revival in overall economic activities. The central bank's quick response to tame inflation has shown positive signs as the inflation trajectory seems to be near its peak. Our customer base, which is largely from rural areas is always part of a self-sufficient economy wherein their livelihoods are reliant on the local ecosystem. This coupled with the discretionary nature of their spending and engagement in multiple income-generating activities helps to generate counter-balancing income streams further adds to their resiliency. We have never witnessed any disruption in repayment discipline during a high inflationary environment or due to volatile macroeconomic factors in earlier years of our experience.

Our consolidated gross loan portfolio grew by 23.3% Y-o-Y to Rs.15,615 Crores. As indicated before, business momentum was muted during the first quarter resulting in a Q-o-Q decline in our loan portfolio. Historically, even during a stable period, growth has been always slower during the first half. Our primary focus during Q1 FY2023 was particularly on maintaining a strong collections discipline and ensuring complete alignment with the new microfinance harmonized guidelines announced by the RBI in March 2022. This involved formulation of necessary board-approved policies, implementation of the required process changes, ensuring necessary technology changes to our core banking system and extensive training for our large field force in both CA Grameen and MMFL. The process transition led to lower disbursements and new borrower additions during April and May 2022. We are happy that the complete alignment of the new regulations in all aspects is ensured in the two months. Further, there were limited loan renewals during Q1 FY2023 majorly due to minimal disbursements in Q1 FY2021 and Q1 FY2022 owing to the COVID-19 pandemic. Additionally, we also undertook branch expansion during this quarter. The new process transition took a little longer time at MMFL as there, we are currently operating on two technology platforms - 73% book on the CA Grameen tech platform and the remaining 27% book on MMFL’s old tech platform.

Our consolidated borrower base witnessed a Q-o-Q decline to 36.9 lakh given that 1.2 lakh borrowers were written-off during the first quarter while the addition of new borrowers was over 92,000. Further, the renewal of loans for over 1 lakh borrowers is under process. Majority of them are to be addressed during Q2, which is also a reason for the reduced active borrower count as on June 2022.

After ensuring full compliance with new RBI guidelines which we have implemented in the months of April and May 2022, the daily disbursement trend normalized during June 2022. Out of Rs.2,146 Crores disbursed during Q1 FY2023, Rs.1,105 Crores was disbursed in June 2022. Similarly, out of 92,000+ new borrowers added during Q1 FY2023, around 44,000 were added in June 2022. Again, in July 2022, our disbursements crossed Rs.1,200 Crores and we added over 80,000 new borrowers which is a historic high for July. As a result, our loan portfolio increased by more than Rs.200 Crores in July 2022. We thus anticipate robust business momentum during Q2 FY2023 and the following quarters.

As said earlier, we continued to march ahead with our branch expansion plan as we opened 50 new branches in Q1 FY2023 primarily in newer states. With two branches merged and two BC branches of MMFL closed, the total tally increased to 1,681 branches as on June 2022. 56% of our new borrower addition on a consolidated basis came outside of the top 3 states during the first quarter steering the direction of future growth. We continued to maintain the status of our healthy collections and strong asset quality during Q1. At CA Grameen the collection efficiency excluding arrears improved from 96% in Q4 FY2022 to 97% and at MMFL, collection efficiency excluding arrears improved from 91% in Q4 to 93%. Further, collection efficiency excluding arrears and excluding non-paying NPA customers touched 99% for CA Grameen and 96% for MMFL in June 2022.

On a consolidated basis, NII grew by 30.9% Y-o-Y to Rs.461.5 Crores and PPOP grew by 33.9% Y-o-Y to Rs.289.7 Crores. The credit cost was Rs.100.9 Crores which also included the impact of the write-off of Rs.191.1 Crores. The credit cost was partially offset by Rs.10.4 Crores of bad debt recovery during Q1. PAT was Rs.139.6 Crores resulting in ROA of 3.1% and ROE of 13.4%. GNPA (@60+ dpd) reduced from 3.61% in March 2022 to 3.11% in June 2022. Our 90-day DPD reduced from 2.71% in March 2022 to 2.33% in June 2022 while net NPA reduced from 1.31% in March 2022 to 1.15% in June 2022. Overall ECL stood at 3.01% at the end of June 2022.

We are happy to announce that we have recently received a credit rating upgrade to 'AA- / Stable', the highest notch in the microfinance industry from India Ratings. This upgrade will have positive benefits on our cost and diversity of borrowings going forward. While we are currently operating with one of the lowest borrowing costs resulting in one of the lowest interest rates for our customers, the future benefits accruing from the rating upgrade shall also be gradually passed on to the customers. We also would like to highlight that, we have been conferred with the highest level of recognition, the ‘Gold Standard’ in Client Protection Principle (CPP) Certification. It is a global framework that determines the degree of client protection practices followed across the loan cycle, in our pursuit of creating capital at the bottom of the pyramid.

We continue to maintain a healthy liquidity position as on June 2022 with Rs.1,542 Crores. Another Rs.3,755 Crores undrawn sanctions and Rs.5,393 Crores of sanctions in the pipeline. In line with our liability strategy, we continue to focus on increasing the share of long-term and international borrowings. On a consolidated basis, international sources accounted for 17% of our undrawn sanctions and 20% of sanctions in the pipeline. We are also working on international ratings which we aim to complete by the end of this financial year, which shall further strengthen our foreign fund-raising plans in the future. We remain sanguine on achieving our annual growth and profitability guidance given for FY2023. We had anticipated the muted growth during Q1 while building our annual guidance plan. Even in the case of the credit cost, we anticipate 60-65% of the annual credit cost to be borne in H1 FY2023 and 35-40% to be borne in H2 FY2023. We expect to grow with robust new borrower additions over the coming quarters.

Last of all, before we open the forum for the Q&A session, I would like to briefly touch upon a minor accounting change which we shall be implementing from Q2 FY2023. The income-generating loans were currently accounted in the balance sheet using Fair Value through the OCI method. Under IND-AS 109, this method is primarily used when a larger proposition of loans is to be sold through direct assignment or securitization. As per our liability policy, we shall maintain short-term borrowings, including direct assignment or securitization, only to the extent of 10% to 15% of gross AUM. Hence, we have been advised by our auditors to account loans in our balance sheet using Amortized cost method beginning from Q2 FY2023. In the case of Fair Value through the OCI method, the outstanding loans are valued at every balance sheet date and the fair value adjustments are transferred to Equity through Other Comprehensive Income. It is important to note that there will be no impact on PAT under either way of accounting. Now when we shift to Amortized Cost method going forward, there will not be any adjustments to be made through Other Components Income. This will reduce the non-cash fluctuations in our Equity. As on June 2022, OCI in our equity was negative by Rs.63 Crores under Fair Value through the OCI method. Shifting to Amortized Cost method will lead to a reversal of OCI leading to an increase in our equity in Q2 FY2023. This will also aid our capital adequacy. We reiterate that there will not be any impact on PAT. Thank you for patiently hearing this is a bit long. I would now like to open the forum for a question-and-answer session. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Pooja Ahuja from Monarch Networth Capital Limited. Please go ahead.

Pooja Ahuja: Thanks for the opportunity. Sir my questions were mainly relating to Madura Microfinance. So, if I sequentially look at the non-paying customers that have risen Q-o-Q and the NPAs have also remained sort of stable. So, just wanted your thoughts on the asset quality in Madura Microfinance.

Udaya Kumar: Thank you Pooja. Actually, we already anticipated this earlier. Madura Microfinance always has a little lag effect because of its model. But already 73% of the book is on the Grameen platform which has more than 99% collection. The 27% of the old book has some residual impact but it is reducing and it has already been provided to a large extent. So, therefore we believe that the impact there is quite low. The percentage is due to a reduction in the AUM, so therefore absolute value in the NPA remains stable there also.

Pooja Ahuja: Right and Sir on the yield front, while we have seen that other NBFC players have sort of taken a steep hike. What I could see in our stand-alone book is that the yields have declined sequentially. So, just wanted to understand why is there a decline in this quarter?

Udaya Kumar: The decline in this quarter was quite nominal. This is because of little higher liquidity maintenance as we have not disbursed too many loans in April and May. Also, in the March quarter, we did a transaction of DA which also loaded the NIM. So, if you nullify that factor that will also change. The third is the base effect about 5.9% portfolio has also come down. Therefore, that is a base effect. There are three factors together I will say lead to a very marginal decrease in NIM.

Pooja Ahuja: For the new book we have taken a hike right?

Udaya Kumar: Of course, yes. Your overall portfolio should go up by 50-60 bps in this financial year because the impact is only in April, May and June where the disbursements were quite low. Therefore, the new increased interest impact is yet to come in the half year of this financial year.

Pooja Ahuja: Sure, that is it from me sir. Thank you.

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

Shreya Shivani: Thanks for the opportunity. I had a question on the repayment rate. So basically, in the last couple of quarters, we were seeing a repayment rate of around 100%. Now if Q1 had also seen a similar kind of repayment rate, I think the AUM growth decline would have been very different. So, can you please talk about why the repayment rate declined from 100% to around 74% in this quarter?

Udaya Kumar: 100% was including arrears if I remember correctly. In the quarter ending March, it was 96% and it has moved to 97%. So, it is an increase in the collection data. We do not understand which point you are referring to.

Shreya Shivani: The repayment rate is at 75%? If I subtract the AUM and disbursements and come at a repayment rate, that number comes at around 75%?

Udaya Kumar: I am not able to get the point Shreya. Maybe you can reach out to Nilesh separately.

Shreya Shivani: Sure, thank you.

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

Renish: Sir, couple of questions. One on this incremental growth from the newer space. So, if I remember correctly on the total book, our unique customer base used to be 40-45%. But when we are entering the new geographies, this unique customer base remains same? Or since we are sort of relatively newer to the geography and the competition might have already tapped that market. So what kind of unique customer base we are seeing when you are entering new geographies Sir?

Udaya Kumar: Our unique customer base in the new geography is higher than our main markets because the main market is the older geography where we have been operating for over a decade. Whereas, in new states, they are close to 50% for new customers mainly because of the rural penetration what we have been doing.

Renish: Got it. So, you are not generally a second or third lender when you are entering new geography?

Udaya Kumar: No because the fact that we told last time and even now also that 40% of the new customers are new to credit and this is higher in the newer states.

Renish: Okay so 40% is new to credit and 50% is sort of unique to us?

Udaya Kumar: Almost in the newer states. In the older states it is slightly lower.

Renish: Okay. Sir, secondly this new regulation on retail loans which allows us to build 25% of the book under the non-MFI category. So, this is largely from the liability perspective because let us say all in all we have always maintained a liability tenure of 20 to 24 months having an asset tenure of 16 to 17 months. But once we start building this book of course which will be a longer tenure may be three or five years. So, sir what is our liability strategy going ahead? Let us say, we have to first secure the liability before we start scaling up the retail book so just your thoughts on the liability book would be helpful?

Udaya Kumar: Actually, it is important not just for retail asset point of view. We should look at microfinance also for longer and stable liability. That is why we told earlier also at least in two to three years' time, we will have at least 30-35% of international borrowings which is stable and long term. We are already working on that which is vastly for microfinance and also for retail finance will be helpful. Once we complete the international rating, we will have the ability to go for long term bonds internationally which will help us to manage this kind of asset structures. So, positive ALM and stable liability is going to be a key factor for stable asset management also which we are very cautious and careful in handling.

Renish: Got it and Sir just last verification on the disbursement number. So, for July you said that Rs.2000 Crores of disbursement and 80,000 in new borrowers?

Udaya Kumar: No sorry, it is Rs.1200 plus Crores of disbursement, 80,000 plus Crores of new customers. The portfolio increase is by Rs.200 Crores.

Renish: Got it. That is it from my side Sir, thank you.

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

Kashyap Javeri: Yes Sir, two questions from my side. One if I look at your credit cost table that you have given. Even in this quarter, the non-annualized credit cost was roughly about 70 basis points because of the write-offs. We have highlighted our medium-term target of about 140 to 150 basis points of credit cost. Would this be a target that can be achieved this year or would it spill over to the next year?

Udaya Kumar: Kashyap, we anticipated or guided 2% to 2.2% for the current financial year and the reduced credit cost for the next financial year considering that we still have a residual impact of COVID-19 on the book. So, we also said that 60% to 65% of the credit cost for the year would come in the first half. 35% to 40% of the credit cost would come in the second half. Considering the first two quarters, we would still need to write off some residual items. If you see, we still have 1.15% of net NPA. So, therefore it will be between 1.8% to 2%. We have guided 1.8% to 2% for this financial year of which 60% to 65% will be in the first half. The balance will be in the second half. We are not expecting to increase beyond that.

Kashyap Javeri: Right and the second question is on the disbursement numbers. So, if I look at the July number now on a new life basis would be roughly about Rs.15,000 odd Crores which would be a sort of flat number. This Rs.1200 Crores is standalone or include MMFL?

Udaya Kumar: It is consolidated.

Kashyap Javeri: Right, so which will be equal to what we did for the full year last year. So, considering that second half usually is better than the first half and March is one of the best quarters. What could be the full year AUM growth that is possible in light of this idea and now with the new norms?

Udaya Kumar: Kashyap, we have guided in the last quarter about our guidance of 24% to 25% AUM growth. We don't seem to be compromising on that number. We should be good with the guidance what we already made.

Kashyap Javeri: Sure, that is it from my side Sir. Thank you so much.

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

Abhishek Murarka: Good morning. Sir my question is on the cost of funds. So, I think your opening cost of funds was 8.8%. Your incremental went up by 20 basis points to 8.6%. But it is still lower than your outstanding. But your cost of funds end of this quarter went up to 9%. So, just wanted to understand the walk there because I thought that your cost of funds would still come down given your incremental is lower than the outstanding?

Udaya Kumar: No, our overall cost of borrowing increased from 8.9% to 9%. It is about 0.1%. So, it is because of some of the repricings by the lenders. But, we assumed earlier also even if there is a 1% increase in overall cost, our cost would go up by 25 to 30 bps. That is what we assumed. So, it is likely the same process. We also increased our lending cost by 25 bps for Q2 already.

Abhishek Murarka: Okay and for your foreign borrowing what is the all-in landed cost?

Udaya Kumar: It will be between 9.25% to 9.75% on an average which will be a minimum of three years of moratorium kind of thing and the repayments starts after three years. So, it will be patient money, therefore. 50 to 75 bps will still be good for us, positive for us.

Abhishek Murarka: Given that part of your yield increase is going to now flow through into Q2, Q3 as well as Q4. How do you see your NIM moving for the rest of the year?

Udaya Kumar: So, we are expecting the NIM to move by about 50 bps for this financial year. And another 50 bps should go up in the next financial year considering that most of the loans are two-year loans. The old book has to run down and then a new book will build. So, overall about 120 bps is supposed to be increasing in about two years' time. So, 50 to 60 bps should come this year and the balance should come next year.

Abhishek Murarka: Okay and this assumes what mix of foreign borrowings, let us say two years down the line from 18% onwards?

Udaya Kumar: Maybe going up to about 25% to 30%. We are expecting that thing because if you see right now already our undrawn funds already are 17% new borrowings (foreign funds) are there. And sanction status may add another 20% foreign borrowings. So, we have a good pipeline already. This means that we should be good in terms of at least 20% to 25% in this financial year itself. 20% this financial and next year 25% to 30% kind of thing. ESG compliance as well as the international rating will further add to that portfolio.

Abhishek Murarka: Absolutely and about international ratings. How much would it bring down your incremental cost of funds by?

Udaya Kumar: The international rating will give access to international bonds. Today we are accessing only FII funds or now from foreign portfolio players or from developmental organizations like IFC, FMO or DFC. So, if you want to access bonds like green bonds or general bonds or social bonds, you need an international rating which will reduce the cost also.

Abhishek Murarka: But do you have a longer period?

Udaya Kumar: The pricing, we have to get into that. For example, if you compare the bonds being raised by some of the lenders in India the rates are between 7.5% to 9%.

Abhishek Murarka: Understood. Sir the second thing is on provisions, given that Madura still has a little higher NPA and PAR numbers. How do you see that coming out through the year? How much write-off would probably need to be taken? And what kind of provisions would we anticipate just from that book?

Udaya Kumar: So, the exact value will be difficult because it is about two quarters. One quarter lag from Grameen kind of things. But still, it is insignificant against the overall portfolio. Therefore, from the credit cost point of view, we are still good to have not more than 2%. So, the exact value of provisioning right now, overall, we have about 3% and Madura has 4.3% provision already there against the GNPA at 60 days of 5.8%. So, largely we have good provisioning there already.

Abhishek Murarka: So, basically Q2 may be a little higher and then as you said in Q3 and Q4 the provision levels should come down?

Udaya Kumar: Correct.

Abhishek Murarka: Understood Sir. Thanks for your time and congratulations on the ESG disclosures. They were pretty detailed, so great to see that. Thank you and all the best.

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

Nikhil Rungta: Thanks for this opportunity. A couple of questions from my side. Sir, you have mentioned that in the newer states you are primarily employing new-to-credit customers. Also, we have been venturing into these newer states now for the past four to five quarters. So, what is our strategy there? What is the behavior of the customers which we are lending to? And how is the competition in these newer states as these newer states basically where we are entering are already penetrated by other MFIs? So, just wanted to get your views on that?

Udaya Kumar: May be a bit comprehensive. So, the way of operating continues to remain based on a district-based approach, to go through inch by inch, moving towards the next stage and going deeper in each district. So, that we have access to the deep rural areas in every district where we operate. If you look at our branches today, almost 5.1 branches per district. Probably, which is the largest per district if you compare to the industry. So, we understand that there are a lot of MFIs. But what we saw largely they are operating in urban or semi-urban areas. So, we have not seen too much competition that itself is the validity is there. We get almost 50% new-to-credit customers. So, we always expect to have new customers so that we can build the specific culture what we have been. That is, the discipline and training and the culture we can build properly. That is why we want to go deep, want to acquire new customers so that we can grow and retain them over a long period of time. So, definitely the newer states are giving that opportunity for us. Be it Gujarat, Rajasthan, UP, Bihar, Odisha or Jharkhand. And we also are seeing very good traction and very good discipline in these newer geographies and newer customer base.

Nikhil Rungta: And how is the competition there?

Udaya Kumar: It is less actually. When you go to deep rural, the competition is less. For example, one of the questions we are being asked is about the rejection rate. We have about 40% new-to-credit while the newer states have 50% new-to-credit. For example, our rejection rate is less than 30%. So, this itself is an important factor that rural and the domain where we are operating have lesser competition.

Nikhil Rungta: Okay and how would our AUM diversification targets say over three periods of time?

Udaya Kumar: Maybe about 10% to 12% not more than that because the microfinance book is also growing quite fast. So, we anticipate about 10% growth, maybe 12% growth in the quarter.

Nikhil Rungta: This state perspective like right now the top three states contribute significantly. So, from a three-year perspective?

Udaya Kumar: But Karnataka, Maharashtra and Tamil Nadu which is close to 78-80% today should come down to 60% to 65% in the next three years' time.

Nikhil Rungta: Okay and Sir how would be our ROA and ROE target for FY2023? You have maintained your guidance but at this level what type of ROA and ROE we are seeing?

Udaya Kumar: We guided about 4% to 4.2% for this year considering that we will have a little higher credit cost residual of FY21-22 is still there. So, therefore for FY2023, it should be between 4% to 4.2%. Whereas, there will be a potential delta increase of about 50 to 60 bps going forward.

Nikhil Rungta: Sir, last question from my side on the credit cost. You have already indicated that, out of 1.8-2% of credit cost in FY2023, 60% to 65% would be in H1 and 30% to 35% in H2. So, out of these credit costs or write-offs which you are undertaking, what type of recovery you are expecting? Do you expect it to start from FY2023 itself or in FY2024?

Udaya Kumar: We should get a good recovery. For example, if you see FY2022 itself we recovered about Rs.65 Crores. In FY2023, we should recover a similar amount. So, we expect a good amount of recovery from the written-off portfolio during this financial year and next financial also. So, overall in our experience what we saw once you write off, about 10% to 15% gets recovered in two to three years' time.

Nikhil Rungta: Okay perfect Sir. That is all from my side. Thanks for answering my questions and all the best for the future.

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

Alpesh: Good morning. Just one question Sir. What has been your experience about implementing the new RBI guideline of assessing the income to Rs.3 lakh per household? And how do you see competition behaving on this parameter? And do you see any major changes as far as from the disbursement perspective? I mean, increasing the ticket size or the number of customers being added, so just some color on that?

Udaya Kumar: Maybe a little too early to get an overall view including competitors because as you understand many of them have not yet been fully implemented and only a few of them may have been implemented. So, we were able to implement it completely in April and May itself. The core banking what we have been operating helped us to quickly adopt all these things. But the ticket size perspective, we have not changed any ticket size. Actually, we ensured that the ticket size is the same as what we have been doing without any modification to that. We believe that the growth should come from customer acquisition and not from ticket size. So, we anticipate about 10% to 12% customer growth this year. 25% to 35% of the growth should come basically from our two components. One is renewals of the customers and the other is new customer acquisitions. So, we have large scope available to acquire new customers across our geography, particularly in the deep rural.

From an impact perspective, we are not seeing too much impact but there is still some manual work from a bureau end. Bureau is not fully aligned with the combined report. Some latencies are still there. It will take probably a couple of more months. But otherwise, we do not see any challenge. I do not think there is any impact going to happen because of the regulatory changes. So, for the growth also we have enough opportunities. We do not see any specific changes here or a lot of challenges here.

Alpesh: Thank you Sir. Just a related question to this. Based on the data that we have collected; what percentage of our customers are qualifying for that Rs.3 lakh as the household income and what percentage are going beyond that?

Udaya Kumar: The numbers are small but close to 70% of the renewals as well as new customers what we acquire together I am talking. I do not have split data. At least 70% to 72% of them are eligible.

Alpesh: And the guys who are not eligible, will they qualify for regular retail loans for us now rather than MFI?

Udaya Kumar: It is normally at one shot. Sometimes they may borrow lesser value and complaint or they would go for the non-microfinance borrowing. For the new customer, we are not going to give the non-microfinance loan. It is only for the existing, good customers we will go for non-microfinance retail loans.

Alpesh: Thank you and all the best Sir.

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

Nidhesh: Thanks for the opportunity Sir. Sir this 72% number that you mentioned for the customers that are eligible for loans, so, what was the number prior to these guidelines?

Udaya Kumar: It was approximately the same Nidhesh, maybe a 2% to 3% variation. But these are initial days that is why still not fully, some of the bureau side we have to crack to lot and manually do. Probably this will increase by another 5%. We are not seeing too much variation. Initially, we had some challenges but after two to three months of effort, we found that it should be on similar lines. So, there may be variations between urban and rural. We observed that. In urban, it is as close to 50% whereas in rural it is quite low. So, on a combined basis about 70% to 72%.

Nidhesh: Sure, Sir. Secondly Sir in the new geographies that we are acquiring customers from, what is the share of customers who are paying on a weekly basis in that? Is the share similar to the overall company or we are seeing higher or lower shares?

Udaya Kumar: Yes, if you look at the overall company, about 55% to 58% are paying on a weekly basis.

Nidhesh: On a consolidated basis?

Udaya Kumar: On a consolidated basis. In the case of new customer acquisition, it is almost 55% to 58%. Whereas in Madura, when we converted, fortnightly is a little higher because they have been on monthly. Now, they are going into fortnightly and weekly, the majority. Whereas new customer acquisition in both companies 55% to 58% are weekly.

Nidhesh: Lastly, are there any trends on customer attendance in the center meeting? How have the trends been?

Udaya Kumar: There is a slight reduction in customer attendance in center meetings, almost 10% lesser than earlier. But still, we have more than 70% of the centre with attendance more than 50%. So, there is not too much variation. Probably some more time it will take. Within the next three to four quarters this also would get corrected.

Nidhesh: Sure, Sir that is it from my side.

Moderator: Thank you. The next question is from the line of Shweta Daptardar from Elara Capital. Please go ahead.

Shweta Daptardar: Thank you for the opportunity. Sir, my question pertains to cost. Sir, what is the steady state normalised cost income that we are looking at? So, I understand that there were branch additions and employee recruits this quarter or is it the seasonality? And a related question to that. We saw loan officers' run rate quarter-on-quarter a slight decline. So, is it that the new employee addition has happened more on the collection ramp up? Thank you.

Udaya Kumar: There are two issues. One is about the cost-to-income ratio. So, we believe this will remain between 35% to 38%, 35% to 40% kind of thing for this financial year. So, that seems to be good and is stable. And the cost of operation is also by and large stable not too much variation. So, I think it is between 4.6% to 4.7% kind of thing. Maybe this year that also will remain at the same level. It may not change too much. And the last one is about the loan officers. Basically, in April and May, we concentrated more on training, some attrition, and recruitment is probably delayed a bit. So, it will get automatically compensated but there is no shortfall of employees because we have already about at least 2% to 3% higher than the required staff what we acquired in March itself, for the branch openings. Therefore, this is an ongoing process. So, in getting the employees or training the employees because two months we spent on concentrating to change the regulation, training, and collections. So, other factors are a little slow. Therefore, the recruitment was a little delayed that is all. It is a temporary impact.

Shweta Daptardar: Sure, if I may squeeze in one more question so which Nikhil had eluded earlier. So, if I look at the 250 to 260 odd branch additions of the past four quarters. Note on 80 to 85 branches have been added in Bihar and UP regions. You also mentioned that the credit discipline in new geographies has been holding up good. So, what has been your experience in these northern geographies pertaining to credit discipline, collections and new disbursals? Thank you.

Udaya Kumar: 80% to 85% of branches are in Gujarat, Rajasthan, UP, Bihar, and Jharkhand. All these five states actually. Our experience has been pretty good particularly since we are able to go to deep rural and able to get new-to-credit customers on a predominant basis. The behavior and the culture of the customers are also quite good. So that it will align with our operating model.

Shweta Daptardar: Okay Sir that is all from my side thank you.

Moderator: Thank you. The next question is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa: Thank you for the opportunity Sir. Good morning. My question is basically on our borrower count. So, in the last two years, most of the growth in the AUM has basically come from ticket size. So, our borrower count has been in the 3.8 to 3.9 million range. From what point do you see a more secular growth in the borrower count? And secondly, if we look at your presence today across these 14 states, given your own mix of unique customers versus new to credit ratios, etc., what is the total market size in terms of the number of borrowers that you can potentially reach?

Udaya Kumar: Okay so for the last two years if you remember at least 11 to 12 months were not operated properly. So, it is equal to one year compared to the number of months available to acquire customers. So, particularly I am talking about the 2021-22 financial year. Despite that, we have added 13.4 lakhs of new customers during these two years time. And also, we have dropped off about 9.2 lakh customers. That means our net addition would have been about 4 to 4.5 lakh customers. Unfortunately, we have written off about 7.2 lakh borrowers between both companies. That is why the aberration of the number of borrowers are coming. So, from now on the writing-off will be lesser and the month-on-month additions started is quite a good number. So, we believe that this year we will good number as I already guided about a 10% to 12% increase in our borrowers, so we will be able to handle it. We will be able to add in that net addition basis. I think you are talking about market sizing potentially so we always believed that we still have about 19 million low-income households in this country not at this payment of finance industry. Definitely of that more than 75 million are in rural not in urban actually so which means if we go deep rural and penetrate more in rural, we do not see any challenge to enhance the customer number so at least for the next four to five years point of view industry should grow between 20% to 25% in terms of portfolio, at least 10% to 12% in terms of customer growth going forward.

Karthik Chellappa: Got it Sir. Thank you very much Sir. Wish you all the very best. That is all from my side.

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

Shreepal Doshi: Good morning and thank you for giving me the opportunity. Sir the question was what percentage of our portfolio would be for a three-year tenure loan now versus a year back?

Udaya Kumar: Actually earlier it was about 14% I think 2021. 2022 it was about 24% by March and now it is about 27%. So as you see our customer with more than three years percentage also kept on increasing due to non-acquisition of customers in the last two years. They are almost 55% of the customers are more than three years therefore there is a high potential that the higher loans are going to a three-year term. About 27% of the standalone portfolio is in three years. On a consolidated basis, 22% is in three years currently and it is inching up due to high returns of customers.

Shreepal Doshi: Second question you highlighted that there was a rundown by 9.2 lakh customers of which 7.2 lakhs have been written-off. The remaining two lakhs would have come due to what reason?

Udaya Kumar: Two to three differences so 13.4 lakh is the acquisition, 9.2 lakh is dropped off basically it is not meeting the regulatory lines, or they do want to borrow or we do not want to hold them due to default/NPA status. On a net basis, 7.4 lakh wrote off and 9.2 lakh dropped off which means 16.6 lakh customers have been dropped overall whereas 13.4 lakh were added.

Shreepal Doshi: Okay got it. One last question Sir if I could squeeze in like will we be deploying the risk-based pricing in our status or we will be only in blended where we will be taking 100-150 basis points of increase?

Udaya Kumar: No, we already implemented risk-based pricing to our customers based on geography and based on vintage already, so our pricings are now 19% to 21.75% currently. So high-risk states will have higher prices and low-risk states will have lower prices. Low vintage states will have a higher price and high vintage states will have a lower price.

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

Kashyap Javeri: Sorry Sir but to hop on this question which I had earlier so to achieve about 24% to25% growth in AUM are disbursements for the next three quarters which is Q2, Q3, and Q4 actually need to grow by almost 30% each quarter and most likely we will have to disburse about Rs.6000 Crores to Rs.6500 Crores per quarter I am just trying to reconfirm that number so with this number is it possible still to grow at about 24% to 25%? Is the math correct first of all that we need to about Rs.6000 Crores to Rs.6500 Crores a quarter kind of a thing?

Udaya Kumar: I was just coming from you. I do not think your math is correct because our average asset is almost 18 to 20 months. Therefore, we do not need to disburse that much money probably Rs.4500 Crores to Rs.5000 Crores per quarter on average if you disburse we will meet our target.

Kashyap Javeri: Sorry I missed that number, the number that you mentioned?

Udaya Kumar: Rs.4500 Crores to Rs.5000 Crores per quarter. Per month Rs.1500 Crores if you disburse we will meet our target.

Kashyap Javeri: Okay so what you are saying is that prepayment would be about 18 to 24 months and which is why the overall targets still can be?

Udaya Kumar: Correct. More than 90% of loans are more than two years or more what you call tenure that is right.

Kashyap Javeri: Okay. Sure thank you so much.

Moderator: Thank you very much. I now hand the conference over to the management for closing comments.

Udaya Kumar: Thank you all for being with us for this call. Wish you all the best and have a nice day.

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