"CreditAccess Grameen Limited Q2 FY2023 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY2023 earnings conference call of CreditAccess Grameen Limited hosted by ICICI Securities. As a reminder, all participant lines will be in 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!

Renish Bhuva: Thanks Sishyashri. Hello and good evening everyone. Welcome to the CreditAccess Grameen Q2 FY2023 earnings conference call. From the management team, we have with us today Mr. Udaya Kumar, MD and CEO, Mr. Ganesh Narayanan, Deputy CEO and Chief Business Officer, Mr. Balakrishna Kamath, CFO and Mr. Nilesh Dalvi, SVP and Head Investor Relation. We will start the call with brief opening remarks and then open the call for Q&A. I would like to thank the management team for giving us the opportunity to host the Q2 FY2023 earnings call. I will now hand over the call to Mr. Udaya Sir for opening remarks. Over to you Sir!

Udaya Kumar Hebbar: Thank you Renish. Good evening to everyone and thanks for joining this conference call. We welcome you all to discuss our second quarter and first half FY2023 financial performance. We would like to say with great confidence that we are well-placed to deliver robust growth and profitability which would further strengthen our leadership position over the coming quarters and year. We have witnessed the strongest second quarter performance to date with all-round improvement across all key parameters ranging from borrower addition, disbursement, collection efficiency, asset quality, net interest margin, return ratios and traction in foreign funding. We are among the early adaptors of new microfinance guidelines which helped us to channelize our energy towards customer additions and loan renewals during the second quarter.

At a consolidated level, we added over 2.8 lakh borrowers during Q2 FY2023, the highest borrower addition witnessed in the second quarter. Our borrower base grew by 3% Q-o-Q and 5.7% Q-o-Q on a pre-write-off basis to reach nearly 38 lakhs now. At CA Grameen, our borrower base grew by 8.8% Y-o-Y and 15.7% Y-o-Y on a pre-write-off basis to reach nearly 30 lakhs. At MMFL while there was a 20.6% Y-o-Y degrowth in the borrower base, on a pre-write-off basis, we had grown by 8.2% Y-o-Y. On a consolidated basis, we added 8.8 lakh new borrowers, over the last 12 months with 47% coming from outside of the top three states.

Our consolidated gross loan portfolio grew by 24% Y-o-Y and 5.9% Q-o-Q to Rs.16,539 Crores, on a pre-write off basis the growth stands at 25.3% Y-o-Y and 7.0% Q-o-Q. The second quarter disbursement at Rs.4,375 Crores at 12.5% Y-o-Y growth is the highest ever. We appreciate the effort of MMFL field staff who are currently managing two interfaces given that 84% of the book is on the CA Grameen tech platform and the remaining 16% book on the MMFL tech platform and still be able to deliver the growth.

The branch addition remained largely muted during the second quarter as we decided to focus on unlocking branch-level productivity. In the last 3.5 years, we have opened over 525 branches at a consolidated level where business could not scale owing to COVID related disruptions. With COVID waning away and the industry being in the new phase, we expect to generate significant business from these branches, which will be further visible in various productivity-related indicators. We will reinitiate the branch expansion in the second half as per our plan.

Our collection efficiency and asset quality have now largely normalized. Consolidated collection efficiency during Q2 FY2023 stood at 97% excluding arrears and 98% including arrears. GNPA largely @ 60+ DPD reduced from 3.11% in June 2022 to 2.17% in September 2022. PAR 90 reduced from 2.33% in June 2022 to 1.72% in September 2022 and net NPA @60+ DPD reduced from 1.15% in June 2022 to 0.77% in September 2022.

We are best placed to protect our NIM, in a rising interest scenario, with strong control over the cost of borrowing coupled with one of the lowest lending rates in the industry. Our consolidated weighted average cost of borrowing was at 9.2% during Q2 FY2023, only 30 bps higher compared to Q4 FY2022 in the last six months. CA Grameen's marginal cost of borrowing during Q2 FY2023 was 8.8%, 50 bps higher in the last six months. Our NIM was 12% in Q2 FY2023 and 11.4% during HY FY2023. This is 50 bps higher compared to 10.9% in FY2022. As guided earlier, we anticipate our NIMs to improve in FY2023 driven by new loan pricing, lower interest de-recognition and lower liquidity carrying cost.

On a consolidated basis, NII grew by 39.9% Y-o-Y to Rs.516 Crores while PPOP grew by 52.7% Y-o-Y to Rs.334 Crores indicating a clear path of strong profitability growth ahead. The credit cost was Rs.105 Crores which also included the impact of the write-off of Rs.163 Crores. This was partially offset by Rs.14.5 Crores of bad debt recovery during the second quarter. Overall ECL stood at 2.46% at the end of Q2 FY2023, higher than our GNPA. We recorded our highest quarterly consolidated PAT of Rs.176 Crores during Q2 FY2023 despite it being a seasonally moderate quarter, resulting in ROA of 4% and ROE of 16.1%. Overall, looking at our H1 FY2023 financial performance, we are sanguine of achieving our annual performance guidance for FY2023.

Our liability franchise is an important pillar to achieving a desirable scale under the microfinance avatar and providing affordable products to our clientele. We saw several positive developments on the liabilities front during the financial year. In Q1 FY2023, India Ratings upgraded our rating from A+/Stable to AA-/Stable and ICRA upgraded our rating outlook from A+/Stable to A+/Positive. This was followed by CRISIL upgrading our rating outlook to A+/Positive from A+/Stable in Q2 FY2023.

We are witnessing strong traction in foreign fund flows, aiding our strategy of diversifying our liability mix and achieving 25%-30% foreign funding over the medium term. During this financial year, we have received sanctions of around USD 195 million from prominent foreign financial institutions and governing bodies including Blue Orchard, International Finance Corporation (IFC), syndicated loan by HSBC and United States and the International Development Finance Corporation (DFC). Today, we have strong visibility of foreign sourcing backed by a 38% share in undrawn sanctions and 19% share in sanctions in the pipeline. And we have a strong policy that we will not have any open positions and 100% foreign currency hedging coverage so that we are not exposed to any currency risk.

We are extremely happy to announce that DFC supported us with a USD 35 million ESG-linked loan for up to seven years and it is the first of its kind direct lending by them to an Indian MFI. This is our second ESG-linked loan after receiving the first ESG loan sanction of USD 25 million from Swedfund in July 2021. The microfinance model fits well under the ESG realm given global investors are actively looking at funding ESG-compliant businesses. We aim to tap ESG funds in our journey which have seen a lot of traction and making concrete efforts to achieve the same ranging from commencing integrated reporting beginning since FY2021 and formulating various policies in the environmental, social and governance framework which are available in the public domain of our website.

We would also like to inform you that we are in the process of launching our maiden public NCD issue in the month of November 2022. We have already filed a draft shelf prospectus, available on the SEBI website for reference. We are planning to raise up to Rs.1,500 Crores in multiple tranches over the coming year. This issue will be the first public NCD issue to be launched by any NBFC-MFI. We have earlier raised Rs.210 Crores through Market Linked Debentures at competitive rates and have witnessed good responses from HNISs and Family Offices. We are taking this route to further diversify our liability profile and establish a strong source of funds through public markets which can be tapped in the future.

Our IT team has been giving us relentless support to cover a wider and deeper footprint. I am happy to inform you that CA Grameen has bagged the “Best Technology of the Year 2022” award in the Financial Services category at Quantic India’s Technology Excellence

Awards. The award was bestowed for adopting effective measures to drive technological advancement, scalable infrastructure and enabling the best-in-class applications given technological adoption is crucial in the quest for enhanced productivity and gaining a competitive edge. With this, we would like to open the forum for a question and answer session. Thank you for your patience.

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

Shreepal Doshi: Hello Sir, a very good evening and thank you for giving me the opportunity. Sir, the question was with respect to the portfolio yield. So, what are the increases that we have taken over the last two quarters in our yields?

Udaya Kumar Hebbar: See based on the new guidelines where the interest can be priced actually based on your cost of borrowing, cost of capital, cost of operation and cost of risk. So, our yield would have gone up by a futuristic disbursement, gone up by almost 1.3%. Along with other income and processing fees together we aim at about 12% NIM from here onwards. The full benefit we would get within two years' time, but some benefit we will start getting here onwards.

Shreepal Doshi: I am sorry. I didn't get. So, you said NIM would inch up to 11%.

Udaya Kumar Hebbar: 12%.

Shreepal Doshi: 12% okay and the portfolio yield has gone up to 21%, is it?

Udaya Kumar Hebbar: It is around 19% odd now. If there is a full benefit of two years, it should hover around 20.3%.

Shreepal Doshi: Okay, got it Sir. You highlighted on the liability side we are looking at new revenues so what is the kind of mix that we are looking at over the next say two years? I suppose on the asset side we have increased product tenure for our vintage customers. So, on the liability side what is the kind of changes that we are looking in terms of mix, if you could answer that?

Udaya Kumar Hebbar: I think I have already answered in the opening remarks. Our view is to enhance our liability profile by at least 25%-30% from international sources which will be stable and long-term. So, this will help us to have a positive ALM, which already we are which will further enhance, that is one step. Second, we said we also are working towards raising about Rs. 1,500 Crores through public NCD which will be again a long-term funding resource. This will make us more than 50% of our funds medium-term level or more than three years loan which will automatically strengthen the liability profile.

Shreepal Doshi: Okay, got it Sir. Sir just one last question on the loan officer side. So, in this Q2 FY23, we have added 700-800 odd loan officers. So, what is the number of borrowers and AUM per loan officer that we feel that we would be comfortable with, in terms of operational metrics?

Udaya Kumar Hebbar: See in our case we always look at the relationship as a key parameter. Therefore, we do not want to load too much on our loan officer. If the number of customers to the loan officer is higher, relationship building will not be possible. Therefore, we are comfortable with about 400 to 450 customers per loan officers only.

Shreepal Doshi: Okay and in terms of AUM size?

Udaya Kumar Hebbar: AUM, currently we are at 1.6 Crores per loan officer and we are comfortable with that. It may hover between 10% plus or minus.

Shreepal Doshi: Got it Sir. In the presentation, I saw there is some revised ECL policy. So, what is it if you could just throw some colour?

Udaya Kumar Hebbar: Annually, we revise our ECL policy to review what has forgone last year and what more we have to change. So, this year we reviewed the ECL policy to give a colour of new risks which are appearing in different places considering the last two years or last three-four years. So, accordingly, we designed the policy to have a different PD/LGD based on the geographic risk and not just a common PD/LGD across the board. So, therefore the states are designed into low-risk, medium risk and high-risk categories and PD/LGD are also revised based on such risk. So, instead of a common PD/LGD for the entire book, it is more on risk-based and customer vintage based. So that, we can arrive at a better ECL provision. So, also giving a colour of little macro-level GDP impact if anything is there, then again we can look at that also as an additional parameter. So, we added a couple of such parameters to refine better than what we had earlier which increased our ECL by about 15 bps with the revised ECL process.

Shreepal Doshi: Got it Sir. Thank you so much for your detailed answer and Happy Diwali to the entire team in advance.

Moderator: Thank you. We have the next question from the line of Pooja Ahuja from Monarch Networth Capital. Please go ahead.

Pooja Ahuja: Sir, congrats on the quarter. So, firstly wanted to understand on the cost of funds front. While you have seen an improvement this quarter, would you largely attribute it to the liquidity run-down and what are our incremental cost of funds?

Udaya Kumar Hebbar: Incremental cost of funds is explained. Our marginal cost increased by 50 bps in the last six months and the average cost of borrowing increased by 30 bps in the last six months.

Pooja Ahuja: Right but Q-o-Q we have seen some improvement. Would you attribute that because we have seen some liquidity rundown?

Udaya Kumar Hebbar: There is no relation with the liquidity rundown for this. We also raised almost Rs.3,000 Crores during the quarter and it is more of a liability management, borrowing at the right pricing and right maturity. So, I think that is what played out. Liquidity management rundown will not have an impact on the cost of borrowing.

Pooja Ahuja: Okay sure Sir. Secondly, on the retail book has not seen traction in the past few quarters. So, just wanted to understand where we are running. Are other products on a pilot basis? When do we see those segments sort of meaningfully contributing to our book?

Udaya Kumar Hebbar: We already said earlier also this year we will do more pilots. You won't see numbers because whatever we are picking, it should be the right model. So, the number traction will be in the next financial year so we are doing more of pilots this year.

Pooja Ahuja: Okay. Sure, that is it from my end Sir. Thank you and Happy Diwali to the team.

Moderator: Thank you. We have our next question from the line of Abhishek Murarka from HSBC. Please go ahead.

Abhishek Murarka: Hi Sir, good evening and congratulations on the quarter. Few questions, one on branches. You said in the second half, you would sort of reinitiate branch addition. What kind of run rate are you looking at?

Udaya Kumar Hebbar: So, it is a normal run rate what you want to do about 10%-12% of our base. that is what we normally do and earlier normally we used to do in the first half. We thought that it would be better to mature the branches which we have opened in the last three and half years. Numbers of branches are there which have not matured. We have a lot of headroom there in those branches. So, we thought to focus a couple of months to improve them and reinitiate it during the year. So, for the 10%-12% of the base increment, we will be doing the same level this year also.

Abhishek Murarka: By the end of the year you would be 10% to 12% higher in branch count versus the beginning of the year, that is what you are trying to tell.

Udaya Kumar Hebbar: Yes absolutely.

Abhishek Murarka: Sir, just on these branches. So, if calculate even now you would be around 350 customers per loan officer and your comfort level is 400 to 450. So, you have at least 15%-30% extra capacity in the system already. So, would it not be useful to push out this branch and people addition and sweat the existing branches and people at least for a while before you start adding?

Udaya Kumar Hebbar: That is looking at the current and we need to look at the future also. We need to create infrastructure for next year also Abhishek. So, if you keep doing this then when you start then actually you do not have headroom afterward. So, we need to keep creating branches for future growth. The only way is to create branches this year and get the potential business in the next two to three years. That is why we will not compromise on the expansion of the branches.

Abhishek Murarka: Okay, so suffice to say then you would probably remain in 350 to 400 space because every time you hit that 400 by that time your fresh capacity will come up.

Udaya Kumar Hebbar: When we say average, it need not be average across the branches. But a matured branch will have about 450-500 and the non-matured will have lesser. That kind of combination will be there always.

Abhishek Murarka: Understood Sir. The other question is on NIM expansion. If I remember correctly, you had guided for 70 bps NIM expansion over two years or something of that order. And we have seen a sudden expansion already and there is more pricing benefit yet to come. I think almost 60% of your book will move to the new pricing methodology. So, do you think from here how much further NIM expansion you envisage? Or do you think your cost of funds will finally start catching up? I mean the NIM would get limited to a certain level.

Udaya Kumar Hebbar: We guided the margin expansion by 1.3%. And we said that 50 to 70 bps may come in the first financial year. The balance will be the next financial year, that is what we said. Here the expansion is almost 90 bps. This is a combination of two things, one is the NIM expansion because of interest rates. The second was because of the lesser derecognition. The third is the reduction of negative carry because of higher liquidity maintenance. So, that is why you saw a little higher NIM expansion this quarter. Probably, it will remain at this level or maybe 20-30 bps may go up in this financial year. And some catching up on the cost of borrowing also may impact. But still, it will remain at about 12%-12.25% at least for this financial year.

Abhishek Murarka: Understood Sir. Finally, any kind of cap on pricing either regulatory or competitively? Do you envisage that or do you think you have the flexibility on pricing? If you need to increase it more you can do it.

Udaya Kumar Hebbar: If the cost of borrowing increases, there is no difficulty to pass on the pricing because we are still among the lowest price to the customers and competitive in terms of pricing. Our borrowing cost is also probably competitive compared to the industry or somebody. So, I think we still have the ability to pass on if there is a further increase in the cost of borrowing.

Abhishek Murarka: Understood Sir. Thank you so much and all the best for the coming quarters. Congratulations and Happy Diwali to you.

Moderator: Thank you. We have our next question from the line of Punit Bahlani from Nomura. Please go ahead.

Punit Bahlani: Just two questions from my side. First, on the ECB mix, you highlighted that the traction is strong. At what cost, including the hedging cost are you able to raise these ECBs like over a near term say two to three years? Where do you see the ECB mix heading?

Udaya Kumar Hebbar: Punit, if I understand correctly you are asking about ECB including hedging cost what will be our landed cost right?

Punit Bahlani: Right, right.

Udaya Kumar Hebbar: It may be between 9.75% to 10.5% per annum. It may be around one percent more than your normal cost of borrowing but it will be normally a minimum of three years funding with us. The repayment will start only after three years. So, therefore because of the patient form of lending, long term and stable even at 1% higher, it will still make sense for us. It will be the fully hedged cost.

Punit Bahlani: Okay, and where do you see the ECB mix heading over the near term?

Udaya Kumar Hebbar: So, our view is in two to years' time, overall international funding will be between 25% to 30% of our overall liability side. It could be ECB, NCD, or private-based funds. So, everything is possible. But looking from the diversification point of view and stability point of view, it will be a mix of both ECB and NCD.

Punit Bahlani: On the margin front, you have attributed the reasons. Just wanted to understand what proportion of the book is post FY2022 any colour on that?

Udaya Kumar Hebbar: Post FY2022, you are talking about the disbursements made in the last two quarters?

Punit Bahlani: Yeah, but what proportion of AUM is generated from that? like as such AUM is part of the total because of the 90 bps sequential increase, I am just wondering whether it is because of a high proportion of the book expiring this quarter or something like that.

Udaya Kumar Hebbar: No, no, no. Not because of that. I told the three components. I mean the exact component I will not be able to give right now here. It is increased pricing and reduced delinquency related derecognition when compared to the earlier quarter. The third one is reduced liquidity. For example, we used to carry almost more than 10% liquidity. Now we are around 7% liquidity or 6% liquidity. So, all these are combinations of an increase in the NIM. Maybe if you need more details, you can have a one-on-one call with Nilesh sometime later whenever you want. He will be able to give some more colour on it.

Punit Bahlani: Okay Sir. Thank you so much.

Moderator: Thank you. We have our next question from the line of Nidhesh from Investec. Please go ahead.

Nidhesh: Thanks for the opportunity. Sir, what is gross customer addition this quarter? Any guidance on that number for the remaining part of the year?

Udaya Kumar Hebbar: We already told Nidhesh that our Y-o-Y customer acquisition is about customer growth of 8% and pre-write off if you see it is almost 15%. But net actually, we presume that our customer growth will be between 10% to 12% and the portfolio growth will be about 24% to 25%. Will that answer your question?

Nidhesh: Net customer growth.

Udaya Kumar Hebbar: Net customer growth after the write-off will be about 10% to 12% and the portfolio after write off about 24% to 25%. This is what we have guided. Probably, we will be able to meet that without any difficulty.

Nidhesh: Sure Sir. The customers that we are acquiring incrementally, how much are new to microfinance in that?

Udaya Kumar Hebbar: It is about 30% to 35% in the first half year. 35% approximately would be the first half year together. And it varies between the north and south. The south may be having lesser new-to-credit, the northern part will have higher new-to-credit so it is about 30% to 35%.

Nidhesh: Sure, and Sir lastly if I look at the competitive landscape, we are the lower-cost provider. We are offering loans at the lowest rate to the customer. But the fact also is that these customers are not very price sensitive. So, in this situation how do we plan to let us say gain market share and consolidate position? What I see is that a lot of players have taken significant price hikes and they are offering at 25% to 26%, while we are still offering at around 20% to 21%. So, that is a significant gap in the pricing that other players are operating at. How do we plan to gain from this Sir?

Udaya Kumar Hebbar: Our plan is to grow consistently. The market plays on its own. So, a customer working in rural, trying to acquire more new-to-credit and then hold them for a longer period is our nature of business and what we are doing. So, in this process, while customers are not price sensitive, once they borrow from us they will start becoming price sensitive. As when they got money from us at a certain price obviously they will expect the same from whoever the next lender is if not otherwise they will stay with us. So, it will only help us have a competitive edge by pricing lower and while borrowing also at a lower price.

I think from a competition point of view, this will help us to gain a market advantage. Also, it helps us to retain our clients which is our main focus. That is why our retention rate is almost 85%. One of the key contributors is low pricing to our customers. So obviously, that reflects our nature as a responsible lending institution.

Nidhesh: Great Sir. Thanks a lot sir. Wish you a very happy Diwali.

Moderator: Thank you. We have our next question from the line of M.B. Mahesh from Kotak. Please go ahead.

M.B.Mahesh: Hi. Just two questions. The first one is Sir, in the market today we seem to be seeing MFI players and non-MFI players offering multiple numbers of products which include personal loans, individual loan and business loans. How easy or difficult it has been right now to kind of capture the bulk of data which is sitting there. And more importantly, if I give a MFI loan does the rule apply as per the current rules but if I give a personal loan does the current guidelines apply. How does it work on the ground?

Udaya Kumar Hebbar: Unsecured loan to any low-income household family with less than Rs.3 lakh income and meeting the FOIR within 50% will form as a micro-lending as per RBI regulation clearly. It can be personal, it can be anything that forms a microfinance loan. I could not understand your next question.

M.B.Mahesh: Has it been easy to capture all this data when you are going on ground?

Udaya Kumar Hebbar: Yes, it is an important element. Your loan officer needs to interact with your customer and the family. Then capture all what they do in terms of their business, their income, their expenditure and the number of people, what kind of business they are into. So, we need to train them. That is why, if you remember we said in April and May, we did not disburse too much money. We spent a lot of time training our employees. How to capture it in our system, how it can be popularized, how to train. So, we used that time. Of course, if you do not have proper data, we have to go by proxy and then talking more with the customers. So, it is possible to capture and maintain and report to the bureau.

M.B.Mahesh: In that context, do you think loans will go away from women borrowers to other members of the family as well?

Udaya Kumar Hebbar: It can be. It is a family-level borrowing and family-level repayment. It has to be because women alone will not be running the business. The husband is the CEO, the woman is the CFO so the business is run by the family.

M.B.Mahesh: Absolutely. The second final question from my side is, any other pockets which is still pending from your side where you think there is stress on the ground? It is still not come back to pre-COVID levels.

Udaya Kumar Hebbar: We do not have any specific pockets in our business. We have been quite okay. So, there are one or two districts not doing well sometimes. These are normal in the business when you are operating in 300 odd districts otherwise we do not see any difficulties.

M.B.Mahesh: Okay Sir thanks a lot.

Moderator: Thank you. We have our next question from the line of Viral Chotai from True North. Please go ahead.

Viral Chotai: Thank you so much. I had two to three questions. On the ESG loan Sir, the question was that if we say that moratorium will be there for 3 years. Is there any other condition also like spread to be maintained or any other specific conditions to which you will have to adhere, to obtain this loan?

Udaya Kumar Hebbar: It is normally bilateral, but we need to really negotiate with respective lenders. There is nothing unique. These are different, different lenders so it is like any other bank. It is a unique bilateral negotiation.

Viral Chotai: Okay thank you. Next question in terms of NCD, you said will be raised next month, maybe in November. What is tentatively the cost of borrowing that will be there because now we got a rating improvement as well. What will be the blended cost for that?

Udaya Kumar Hebbar: We have not yet decided. We are yet to do a roadshow and meet potential investors. Then, we will decide on the tenures and the size and the price at the appropriate time before launching the NCD.

Viral Chotai: Okay. In terms of definition in our presentation at the last, definitions are given. I was reading the portfolio yield definition. It says interest on loan minus processing fees plus interest on securitization. And in the denominator, we take the average on-book AUM. So, when we are taking income from securitization, should we not take on-book plus off-book in the denominator to arrive at the yield on our portfolio?

Udaya Kumar Hebbar: I think we follow standard practices. I think there would not be any difference between standard practice. Therefore, portfolio yield and then the related calculations are equal to the standard practices of any other NBFC-MFIs.

Viral Chotai: Okay. Sir last question. I understood that compared to most of the competition or players, we have done extremely well during COVID and our COVID losses were the lowest. For example, if we take our AUM pre-COVID and we take total credit so far whatever write-off including provisions. What will be the ballpark number? What will be the total COVID loss we would have incurred?

Udaya Kumar Hebbar: About 4.5% annually for both years.

Viral Chotai: 4.5%.

Udaya Kumar Hebbar: 2020 and 2021 on an average of 4.5% both years.

Viral Chotai: Okay. Thank you so much Sir. Happy Diwali and wish you all the best.

Moderator: Thank you. We have a question from the line of Shreya Shivani from CLSA. Please go ahead.

Shreya Shivani: Hi, thank you for the opportunity and congratulations on a good set of numbers. Sir, particularly I have two questions. The first one is on the borrower count, particularly for Madura. So, that has been moderating and I understand it was intended to be this way. In the coming quarters, are we going to see an improvement in the borrower count over there? Or there is still room for correction of borrowers from the Madura book. That is my first question. And my second question is more to do with the group meeting discipline. As far as I remember that coming out of COVID, a lot of MFI players were reporting that the group meeting discipline has sort of not returned. If you can give us some flavor on how it is now? Which states are seeing better recovery and how much of your group meeting discipline has returned? And which geographies of the country?

Udaya Kumar Hebbar: In Madura, so we explained two things. One is because they are handling two types of systems, there will be slight little latency in their efficiency in customer acquisition. But, the reduction in customers is due to a write-off of a large number of customers during the last 2 years. If we look at the pre-write-off of Madura has also grown by 8.8% Y-o-Y in customers and the portfolio also grew by 28% Y-o-Y. So, it is not that Madura is not acquiring customers. But it is a little lesser compared to CA Grameen. Otherwise, because of the write-off, numbers are a little higher there. Therefore, it looks like a 20% deduction of customers which we anticipated. Still, they acquired a good number of customers and then it is improving. Right now, you see 84% of the book is already Credit Access Grameen platform only 16% is to be managed now. As it comes down, their ability to acquire more customers will improve. So, we would see good improvement in the next 2 quarters in Madura's book also. That is the first question.

The second one is about discipline coming back. I think discipline was quite good even during COVID. As and when we allowed the center meetings to happen in the system, the people were back. We do not have too much indiscipline in the group. There is still little attendance reduction compared to pre-COVID. Probably during pre-COVID, it was about 78% to 80% of attendance. Now, it is about 70% to 72% attendance which is still quite good. We do not have any challenges with group discipline, disbursement issues or collection issues. We are back to normal.

Shreya Shivani: Got it Sir, that answers my question. Thank you and happy Diwali to all of you.

Moderator: We have our next question from the line of Piran Engineer from CLSA. Please go ahead.

Piran Engineer: Hi good evening and Happy Diwali. I just had a clarification on one of the questions from a previous participant on the eligibility of loans. So, you said that it is below Rs.3 lakhs and FOIR less than 50%. But this is only if it is under the JLG model, right?

Udaya Kumar Hebbar: I responded to the regulatory question that what is the definition of microfinance. Therefore, from a regulatory point of view, ours is all are income-generation loans or group loans only. For regulation, there is no group requirement. They have not mentioned that.

Piran Engineer: So, even if I want a personal loan they have to verify whether you know I am from a lower income category and what my FOIR is.

Udaya Kumar Hebbar: If you want to categorize that under microfinance then you will have to evaluate the family income. It should not be more than Rs.3 lakhs. You have to evaluate all the borrowings of the family and the outflow should not be more than 50% of the household income. So, if you maintain that, it is microfinance.

Piran Engineer: Okay got it. That is to maintain the 75% share of microfinance to be classified as MFI that is the only reason.

Udaya Kumar Hebbar: That is for NBFC MFI. For a bank, for example, not necessarily that rule is applicable right.

Piran Engineer: Okay I got it. That sort of answers my doubt. Thank you and all the best.

Moderator: We have our next question from the line of Shreepal Doshi from Equirus, please go ahead.

Shreepal Doshi: Thank you Sir for giving me the opportunity once again. Sir, the question was with respect to the customer overlap. For Q2, what would be the customers which are unique to us and what would be like CREDAG plus one lender and CREDAG plus two lenders?

Udaya Kumar Hebbar: There was not much change in our customer profile. About 43% of our customers are unique for Grameen and about 39% of the customers have one other lender and the balance have either two or three lenders. That is the profile of our customers.

Shreepal Doshi: Okay right, that is broadly similar. Sir, the last question was with respect to what is the internal cap on the total leverage that we would be comfortable at the customer level?

Udaya Kumar Hebbar: So, we have taken a call that even though regulatorily there is no cap. We said that if a customer is a vintage customer. If he has already more than 4 years of microfinance experience with us, we can go up to Rs.2 lakhs of leverage. And if it is not, it's only 1.5 lakh. So, that way we took the leverage, from all the borrowings together not just Grameen, all borrowings together. Within Grameen, Rs.1.25 lakh is the maximum for a customer with more than 6 years with us. And less than that, various categories from Rs.40,000 to Rs.1 lakh.

Shreepal Doshi: Okay got it. Sir. Any colour if you could give, what would be the overlap with players like BHAFIN and Spandana. I understand there might not be a significant overlap in each of the states. But, if you could give some colour in some of the key states like Karnataka, Tamil Nadu and Maharashtra maybe?

Udaya Kumar Hebbar: I will not be able to give state-wise. But overall, our overlap with BHAFIN is about 14% and Spandana is about 4%.

Shreepal Doshi: Okay got it, Sir. Thank you so much Sir for the detailed answer.

Moderator: Thank you. We have a question from the line of Viral Chotai from True North. Please go ahead.

Viral Chotai: In terms of collection efficiency, it is mentioned as 98% in the IP. And it says it is including arrears as well. So, on a due basis if you can just tell have we reached now to pre-COVID levels in certain states if they were not doing well?

Udaya Kumar Hebbar: We told both actually. Without arrears, we said 97% and with arrears 98%. That means, demand versus collection is 97%. So, largely around the pre-COVID level because if you exclude the non-paying NPAs, it will be about 98%.

Viral Chotai: And any specific states which are not performing well, where collection efficiency is lower than average?

Udaya Kumar Hebbar: No overall, we do not have too much variation.

Viral Chotai: Okay. Thank you so much.

Moderator: Thank you Sir. There are no more questions in the queue any closing comments Sir.

Udaya Kumar Hebbar: Thank you everybody. During the festival time we took evening time of all of yours. Happy Diwali to everybody and have a prosperous happy Diwali. Thank you very much.

Moderator: Thank you Sir. On behalf of ICICI Securities that concludes this conference thank you for joining us and you may now disconnect your line.