"CreditAccess Grameen Limited Q3 FY 2023 Earnings Conference Call"

February 07, 2023

MANAGEMENT: **MR. UDAYA KUMAR HEBBAR – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – CREDITACCESS GRAMEEN LIMITED**
MR. GANESH NARAYANAN – DEPUTY CHIEF EXECUTIVE OFFICER AND CHIEF BUSINESS OFFICER - CREDITACCESS GRAMEEN LIMITED
MR. BALAKRISHNA KAMATH – CHIEF FINANCIAL OFFICER – CREDITACCESS GRAMEEN LIMITED
MR. NILESH DALVI – SENIOR VICE PRESIDENT AND HEAD OF INVESTOR RELATIONS – CREDITACCESS GRAMEEN LIMITED

MODERATOR: **MS. SHWETA DAPTARDAR – ELARA SECURITIES**

Moderator: Ladies and gentlemen, welcome to the CreditAccess Grameen Limited Q3 FY23 Earnings Conference Call hosted by Elara Securities (India) Private Limited. 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 star and then zero on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Shweta Daptardar from Elara Securities. Thank you, and over to you, ma'am.

Shweta Daptardar: Thank you. Hello and good evening everyone. Welcome to the CreditAccess Grameen Q3 FY 23 Earnings Conference Call. From the management team, we have with us today, Mr. Udaya Kumar Hebbar, Managing Director and CEO; Mr. Ganesh Narayanan, Deputy CEO and Chief Business Officer; Mr. Balakrishna Kamath, CFO; and Mr. Nilesh Dalvi, Senior Vice President and Head of Investor Relations. We will start the call with brief opening remarks and thereafter open for Q&A. At this juncture on behalf of Elara Capital, I would like to thank the management team for giving us the opportunity to host the Q3 FY23 Earnings Call. I will now hand over the call to Udaya sir for opening remarks. Over to you, sir.

Udaya Kumar Hebbar: Thank you, Shweta. Good evening to everyone, and our sincere thanks for joining this conference call to discuss our Q3 FY23 and 9M FY23 financial performance.

The third quarter witnessed robust sequential improvement in business momentum, operating efficiency, asset quality, and return ratios once again. Thus, we concluded yet another milestone of surpassing Rs.200 Crores in quarterly net profit. We are confident of sustaining this profitability trend and further improving it over the coming quarters.

Our consolidated gross loan portfolio grew by 21.9% Y-o-Y and 7.5% Q-o-Q to Rs.17,786 Crores. On a pre-write-off basis, the growth stood at 22.8% Y-o-Y and 8.3% Q-o-Q. Disbursement grew by 2.7% Y-o-Y and 10.8% Q-o-Q to Rs.4,847 Crores.

The Y-o-Y disbursement growth appears to be a little lower, because of a higher base on Q3 FY 22 wherein we had already resumed growth encashing the opportunity of pent-up demand post COVID 2.0. While we see good on-ground business momentum, our focus remained on driving calibrated portfolio growth led by new borrower additions along with maintaining superior asset quality. We reiterate our FY23 guidance of portfolio growth.

Our consolidated active borrower base grew by 5.3% Y-o-Y and 3.7% Q-o-Q to 39.4 Lakhs. We added 3.05 lakh borrowers in the third quarter. At CA Grameen, our borrower base grew by 11.2% Y-o-Y to 31.3 Lakhs. On a pre-write-off basis, the Y-o-Y borrower growth was 17.2%. At MMFL, borrower degrowth was 13.3% Y-o-Y as per our estimate. However, on a pre-write-off basis, we had 14% Y-o-Y growth in MMFL also.

Overall, we added over 9.8 lakh new borrowers in the last 12 months with around 47% coming from outside the top three states, further enhancing our geographical diversification. We added

43 new branches mainly in the newer states taking our total branch network to 1,727 across 344 districts. We shall open a few more branches in the fourth quarter, whereas the higher focus will be more on leveraging on the headroom available over 500 branches opened in the last 3 years.

Our collection efficiency and asset quality are amongst the best-in-class supported by our robust operating process and controls. Consolidated collection efficiency during Q3 FY23 stood at 98% excluding arrears. GNPA at 60+ DPD reduced from 2.17% in September 2022 to 1.71% in December 2022. PAR 90 reduced from 1.72% in September 2022 to 1.34% in December 2022, while Net NPA at 60+ DPD reduced from 0.77% in September 2022 to 0.59% in December 2022. Overall ECL stood at 2.04% at the end of Q3 FY23, higher than our GNPA which is predominantly at 60 days DPD.

Our NIMs have remained resilient in a rising interest rate scenario giving us a competitive edge in pricing to our customers. For the third quarter, our consolidated NIM stood at 11.9%. We had relatively higher liquidity during the quarter on account of foreign debt drawdowns and public NCD issuance which accounted for Rs.1,685 Crores or 49% of total debt drawdowns during Q3 FY23. Our adjusted NIM, excluding the impact of excess liquidity, was 12.1%. We draw comfort from the fact that our 9M FY23 NIM of 11.5% is 60 bps higher compared to FY22 NIM, as guided at the start of the financial year. Our marginal cost of borrowing is a little higher with a one-off spike to 10.2% during Q3 FY23, primarily due to a higher proportion of long-term debt which is foreign ECB, NCD and public NCD in incremental drawdowns, which came at a higher cost.

The cost of borrowings from banks, NBFC MFI was stable on a QoQ basis. Despite the higher marginal cost of borrowing in Q3 FY23, increase in the share of foreign borrowings to 17% vs. 9% in Q2, raising of Public NCDs, and 225 bps repo rate increase by RBI in past 9 months, we have been able to maintain our weighted average cost of borrowing which increased by only 70 bps to 9.6% compared to March 2022, which is very minimal increase.

Our dedicated efforts to increase the proportion of long-term borrowings are coming to fruition as the average maturity of liabilities on a consolidated basis has increased to over 24 months compared to over 22 months a quarter ago, significantly strengthening our ALM position. We expect the cost of borrowing to normalize with a predominant share of bank borrowings in incremental drawdowns in Q4 FY23. Our 9M FY23 weighted average cost of borrowing is within the expected range of 9.3% - 9.4% for FY23, as guided at the start of the financial year.

On a consolidated basis, NII grew by 37.7% YoY to Rs.567 Crores while the Cost to Income ratio stood healthy at 36.3%, 300 bps lower YoY. PPOP grew by 38.7% YoY to Rs.380 Crores demonstrating a strong operational profitability trend.

The credit cost stood at Rs.89 Crores which also included the impact of the write-off of Rs.131 Crores as per the policy at 270 DPD. This was partially offset by Rs.16.5 Crores of bad debt recovery during the third quarter. The credit cost at CA Grameen is within the budget while at MMFL it is higher due to the relatively lagged collections trend in the last leg of the legacy book. However, we also note that we are witnessing better bad debt recoveries from MMFL's written-off portfolio. Further, the new book at MMFL based on the CA Grameen operating model, accounting for 92% share, has been displaying excellent portfolio quality. As a result of a higher write-off witnessed from the legacy book which is currently at 8% of MMFL book and 1.3% of the consolidated book, we estimate the FY23 gross credit cost at 2.3% - 2.4%. On a net basis, including bad debt recoveries, the credit cost should be in the range of sub 2.0%. The impact of higher credit costs has been adequately built into the revised pricing to the customers, hence our ROA guidance will be intact.

Our consolidated PAT significantly grew by 85.3% YoY and 23.1% QoQ to Rs.217 Crores during Q3 FY23, resulting in ROA of 4.6% and ROE of 18.8%. Till 9M FY23, we have delivered a consolidated PAT of Rs.533 Crores with a ROA of 3.8% and ROE of 16.2%. We reiterate our FY23 guidance of 4.0% - 4.2% ROA and 16.0% - 18.0% ROE.

The union budget FY 2023-24 focusing on women empowerment, inclusive development and reaching the last mile as the key drivers towards the India@100 vision clearly highlights the importance of microfinance institutions' role in the capital creation story at the bottom of the social pyramid. A host of measures – i) Rs.2 Lakh Crores central govt. scheme to supply free food grain to all poor and priority households, ii) digital public infrastructure for agriculture, an agriculture accelerator fund for increasing productivity and profitability, Rs.20 Lakh Crores agriculture credit target, iii) 66% increase in PM Awas Yojana corpus to Rs.79,000 Crores, iv) revamped credit guarantee scheme for MSMEs, etc., are aimed towards strengthening the rural ecosystem and will benefit the rural financing opportunity over coming years and are a big positive for the microfinance business.

I would like to quickly touch upon a few awards and recognitions recently won by CA Grameen. We have been certified as a "Great Place to Work" successively for the fourth time, being a testament to our inclusive work culture. We won the "Certificate of Merit" at the 26th South Asian Federation of Accountants award for our 2021 edition of the integrated annual report and corporate governance disclosures. We won the prestigious "Breaking Ground in WASH Financing" award at the Inclusive Finance Summit 2022 and also the 'Impactful Contribution in Financial Inclusion' segment by Elets at the 12th NBFC100 Tech Summit. Lastly, I would like to hand over the call to our Deputy CEO & CBO Mr. Ganesh Narayanan to share two quick updates with you all.

Ganesh Narayanan: Good evening to everyone. Along with the strong Q3 FY23 performance, I would like to share two positive developments with you all. Firstly, we have received approval from the Board of Directors on the extension of the term of appointment of Mr. Udaya Kumar Hebbar as MD & CEO of the company for a further period of two years till June 2025 after the expiry of his current term in June 2023, subject to the approval of shareholders. Backed by his experience and guidance, the company is all set to move towards the vision and has a stable team of CXOs who are capable and well-equipped to manage the business scalability over many more years.

Secondly, we are happy to inform you that the NCLT, Bengaluru Bench, has today pronounced the order approving the Scheme of Amalgamation between CA Grameen and MMFL. The NCLT copy of the said order is awaited. We had earlier received an approval order from NCLT, Chennai Bench in October 2022. With this order, we can now proceed toward the amalgamation of MMFL with CA Grameen and present our FY23 Annual Financials as a merged entity. With this, we would now like to open the forum for a question-and-answer session. Thank you for your valuable time.

Moderator: The first question is from the line of Shreepal Doshi from Equirus.

Shreepal Doshi: So, just wanted to check with you, like are we still following the three-lender cap as a prudent practice in acquiring new customers or for our existing customers?

Udaya Kumar Hebbar: No, we are not capturing for three lender norms, but we are capping our unsecured limit at Rs.1,25,000 only.

Shreepal Doshi: And sir, I wanted to understand like we have revised our credit cost for this year now, which is with respect to guidance. So, what is the thought process behind not upfronting it during this quarter itself? I mean, because we would anyway have got clarity on the stress book, which would need to get written-off. So, I just wanted to understand the thought process there?

Udaya Kumar Hebbar: No. This is a very small proportion of the Madura book which we are finding a bit of lag in recovery in the old legacy book. But we are trying to recover as much as possible. But we believe right now that we already reached 1.9% on a consolidated basis. We believe the next write-off when we would do, we would cross up to point 2.2% or 2.3%. But it will go as per the normal process instead of any accelerated process.

So, I think anyway it will be completed in the same financial year. So, we are not taking an accelerated position. Also, we told that despite that slight increase in cost, our ROE is still intact. The pricing is all anyway covered by that factor.

Shreepal Doshi: So, just two follow-ups to what you said. So, what is the write-off that we are anticipating in Q4 FY23? And as you said, you're not revising the ROA, ROE guidance because NIM is likely to improve. So, what is the NIM guidance for FY23 and FY24, if you can provide it?

Udaya Kumar Hebbar: Guidance for FY23 & FY24, we have to come back. We will definitely declare in the last fourth quarter. As of now, we will not be able to give the numbers. But we estimate that the credit cost will get into a stable position. We already talked earlier that the normal stable credit cost would go up, which will be between 1.5% to 1.6%. We will be within that range.

Shreepal Doshi: So, just wanted an overlap of our customers with players like Bhafin, Ujjivan and Spandana? That's it.

Udaya Kumar Hebbar: There are not too many variations from what we earlier told. So, among all the major players, our maximum overlap is only with Bhafin, which is about 14% - 15%. Other than that, all the others are less than a 5% overlap.

Moderator: The next question is from the line of Nidhesh Jain from Investec.

Nidhesh Jain: Firstly, if you can talk about borrower leverage, including all the financial institutions. Since now we are capturing that data for the last three quarters. How are the trends in that on the borrower leverage front for your customer base, including all the other financial institutions? How are the trends that you are witnessing?

Udaya Kumar Hebbar: We have not observed too much variation at this point of time. Probably, the change in regulation impact may take at least two, or three more quarters because the majority of the players would have adopted only by Q3. Therefore, it's a little early to get the full detail. We are not seeing too much variation, but we've seen little variation in the urban because of the family since somebody else also would have borrowed. So otherwise, on the family level, right now we are not able to get a full picture at this point. Why I am telling you is the approval rates of still at the same level. Just raise up by 2%-3% compared to pre-COVID level.

Nidhesh Jain: Actually, is there any update on the promoter selling, which has been in the news in the past? Is there any update on that?

Udaya Kumar Hebbar: So, there is no other major update as we reiterated earlier. Many of you would have this question. probably I can give a detailed answer for that so that all would have a common understanding. So, our promoter holds adequate capitalization and we have a very good global investor base. This can be seen maybe the fact that we are already fully capitalized in the life insurance subsidiary and can sustain its future capital requirements. Further, the leading Italian bank Intesa Sanpaolo has acquired about 2% in the promoter company recently from what they have given a disclosure.

Considering the merit of credit to gradually improve the free float and liquidity in CA Grameen stock, the promotor may consider one or few bilateral share sale transactions with selected high-quality long-term investors expressing interest in the proposal. But, we would like to clarify that the promoter does not intend to offer any share in the market to MMFL or any other offer made by advisors.

Any such transactions if at all may aggregate combined together up to around 10% over the medium term at a price level definitely reflecting the business fundamentals and those prospects with a stable market condition, which in our view is not the case at the current market level. This also will allow us to onboard three long-term investors who are not able to purchase meaningful quantities at this point of time because of the low floating stock.

I would like to reiterate that the strategic view of our promoter remains to keep holding a clear majority stake in the company above 55% - 60% over the long term. Even after considering any minor dilution as described above and potential future capital raise plans of CA Grameen also.

So, I think there may be many things in my mind so I thought to give a long answer to cover entirely. So, there won't be supply coming to the market so there is no possibility of things.

Nidhesh Jain: And then lastly, the customers that we have acquired in Karnataka, Tamil Nadu which are supposed to be pretty well-penetrated geographies. If you can share what percentage of these customers, for example in Karnataka we acquired some 1.8 lakh customers, Tamil Nadu we acquired 1.8 lakh customers. What percentage of these customers are new to credit, new to micro finance or new to credit?

Udaya Kumar Hebbar: Yes, out of 9.05 lakh customers acquired in the last 12 months, about 47% of customers are acquired from the core geography of Karnataka, Maharashtra and Tamil Nadu. And the new to credit is between 25% - 30%. Maybe 5% more in Maharashtra. Karnataka, about 33%, Tamil Nadu about 27% and Maharashtra about 33-35% are new to credit.

Nidhesh Jain: New to credit. 35% in Karnataka, 25% in Tamil Nadu and 35%, Maharashtra?

Udaya Kumar Hebbar: 27% in Tamil Nadu, 33% in Karnataka and 41% in Maharashtra.

Moderator: The next question is from the line of Renish from ICICI.

Renish: Just two questions. So, one on the incremental branch opening. In this PPT, where we can see that we are incrementally opening branches in Maharashtra. So, what is the rational here I mean since we have acquired Madura. So, that was the prime rational of the Madura will give us access to Maharashtra geography. So, why you are incrementally opening branches in Maharashtra?

Udaya Kumar Hebbar: In Maharashtra, we have not opened the branch for expansion Renish. It may be in some places where the existing branch is overgrown and we have to split and do one more branch. It's only for the local group and not on an expansion basis. So, when the branch is overgrown beyond 7-8 thousand customers in a single location, we normally create one more branch so that we can transfer and service better. Only on a broad-basis, we open branches in Maharashtra.

Renish Bhuva: And sir, secondly, again, in Bihar, we have opened about 19 branches in Q3 and we opened another 10 in Q1 FY23. So, what is our experience in this geography, let's say, collection efficiency?

Udaya Kumar Hebbar: Our experience is very good in all the northern states, very, very liquid or what you want to call - portfolio quality, process quality, new customer, new to credit customers. All these are very, very good. In fact, in Bihar and all, we are getting 40% to 50% new to credit because we operate in Tier 3, Tier 4 kind of traditional villages. Therefore, we're able to build, acquire new to credit and new customers and able to build a very good repayment culture also.

Renish Bhuva: And sir, just last question on the growth side. You know, I heard you in the opening remarks, you are not giving guidance for FY24. But just from a qualitative perspective, given our AUM size now, like at what rate you guys will be comfortable growing the MFI book? And along with that, if you can just highlight what we are doing on the new product side. And is this size to assume that maybe a couple of years down the line the new products segment, might outpace the MFI growth?

Udaya Kumar Hebbar: Overall growth, while we are not giving all the line-by-line guidance. The growth we always maintain that we should be able to grow at a CAGR of 20% to 25% over the next four to five years. I think this is definitely possible. The mix would be including microfinance and non-microfinance. So non-microfinance book, now that we are doing a lot of pilots, which are really giving a very good sign of future prospects. We should see good traction in FY23 & FY24. But including all the products, definitely, our aim to grow is between 20-25%, which is definitely possible. Then actually, from a CAGR perspective, three years, four years, we are actually expecting this kind of growth.

Renish Bhuva: And would you like to give any numbers or let's say, any comments around what all new products we are piloting?

Udaya Kumar Hebbar: Definitely. We are working on the five key products. One is an individual loan for the matured customers, which is already piloted, we are located in about 192 branches. We're already disbursing almost nearly a crore every day, that is one. And we are working, we have also piloted the two-wheeler loan, on just pilot, in a few branches. We started and then, that is also again promising. And we are already running the Loan Against Property book of almost Rs.5 Crores per month we are disbursing right now. But this is an increasing trend, which is, again, quite promising.

And then we are also piloting gold loan in about five-seven branches. We will have to see a few more pilot there because there's a difference in the type of growth between the district headquarter branch to taluka headquarter branch. We found some variance. But we will get more and we are also working on affordable housing, which is yet to be initiated. These are the five products that we are working. As I said earlier, the more will be pilot and the real traction, we will see in FY23 and FY24.

Moderator: We have the next question from the line of Punit Bahlani from Nomura.

Punit Bahlani: Firstly, on the cost of borrowing debt. Like you have said this quarter, in your PPT. You have mentioned that because of the higher proportion of long-term debt, the borrowings came at a higher cost. So, for Q4 FY23, because you have taken on excess liquidity, this quarter perspective, the cost of funds will be relatively lower right? If I am not wrong.

Udaya Kumar Hebbar: Cost of borrowing, which is marginal cost, that means borrowed for Q3 FY23 was a little higher. Whereas our cost of borrowing is stable at 9.5%. So, in that quarter, the marginal cost was a little higher because of the long-term fund and the NCDs that we raised. So, therefore, the impact on the total borrowing is quite marginal.

And also, in Q4 FY23, we are planning to borrow the majority from the banks, local banks, and domestic borrowings. So, therefore, our marginal cost and average borrowing cost will remain at the same level for Q4. And our marginal cost would come down because we would borrow more from domestic banks for Q4. That's a blip only for Q3 borrowing, not the overall borrowing.

Punit Bahlani: And the second bit on the loan proportions from other than the Top 3 states, I might say, the Top 4 states. It forms around 17% of your AUM. Any color on the slippage strength there? Like how are they, are they over the current portfolio like, the Top 3 states portfolio? Are they in line like, any color on that?

Udaya Kumar Hebbar: See, our core market is very strong actually in terms of the quality of the portfolio and the growth. But there is very moderate growth in the core market because already, the rate is quite high. So normally it will be low. Whereas other states which are the newer ones will actually grow much faster. While the average is about 25%, if you see as we open more-and-more branches, the northern states are giving a higher proportion of growth. To give you an example, of the acquired customers in the last 12 months, 47% were majorly from northern states and 53% acquired were only from the Top 3 states. So same type, the branches we opened, almost 95% of the branches we opened in the northern states. So automatically, the new growth is coming from the northern states. But core growth and core state will give a stable portfolio.

Punit Bahlani: And then like on the asset quality bit, like you're witnessing slippages or anything? Any colour on that, qualitative would do?

Udaya Kumar Hebbar: So, what we believe is, the current year, our overall asset quality, what we call credit cost would be about 2.2% to 2.4%. Whereas next quarter, over next year, we believe that it will be between 1.5% to 1.6%. We are witnessing a similar exit rate of slippages actually, which is that way. So, that's why the current year is based on legacy books. But with legacy books getting cleaned up in this year, we should be getting about 1.5% to 1.6% credit cost going forward.

Moderator: The next question is from the line of Nikhil from Nippon.

Nikhil: Congratulations on a great set of numbers. Just a couple of questions from my side. First, is to clarify you indicated that the promoters won't be selling any shares in the open market. That would be primarily the bilateral transaction. Am I right?

Udaya Kumar Hebbar: Yes, block transaction. No block deal or no book building, that kind of thing.

Nikhil: Big investor only.

Udaya Kumar Hebbar: Yes, correct. Basically, the idea is to enhance the long-term good investor base and to enhance the float also. So, basically to meet both sides of the requirements.

Nikhil: So, my second question is if I look at our cost of borrowing, I agree that it has been increasing since the past couple of quarters. So, has been our yield in line with our expectations. But if I look at the margin profile, the margin actually on a Q-o-Q basis has declined from 12% to 11.9%. Of course, I agree with the fact that we have excess liquidity. But that excess liquidity was also available in Q2. So, if I have to net off this thing, what would be the stable margin we can look at from here on?

Udaya Kumar Hebbar: So actually, I agree. It was around 12% in Q2 and 11.9% in Q3, about 11 bps lower from Q2 to Q3. Because the weighted average liquidity was quite high during the quarter. So in Q2, we had excess liquidity only at the end of the quarter, not the average actually. The carrying cost is the average book. Almost more than 8% was our liquidity during Q4 because we raised money in November and we could not deploy immediately. So, therefore the difference between Q2 and Q3. Whereas our continuous NIM should be between 11.75% to 12%.

Nikhil: So that should be sustainable NIM from here on, right?

Udaya Kumar Hebbar: Correct. That is one. Number two, what we said at the start of the year that we would get eventually about more than 1% to 1.2% higher NIM over two years' time. And 60 bps we would achieve in the current financial year. Whereas we already achieved the 60 bps, which we guided at the start of the year.

Nikhil: So, for next, say FY24, the margins would be 50 to 70 bps higher from the 12%, right?

Udaya Kumar Hebbar: So the take is 12% to 12.25% because there are two other factors in play, Nikhil. Also, the leverage will play a bit, because today, the equity is about 22%. To that extent your NIM will change, right? The slight variation, 12.5% is the expected NIM. So we need to adjust with leveraging also.

Nikhil: The last question from my side, incrementally, we have been opening the majority of our branches outside our core states. And specifically, if I look at this is primarily in the northern states like UP, Bihar and all. So, going forward, can we see down the line, what could be the share of these other states? Or how do we see the share of Karnataka, Maharashtra, Tamil Nadu and others in our entire scheme of things?

Udaya Kumar Hebbar: Yes, if you look at, as you'll see, currently also around 35% of our branches are outside the core four states already. We can start adding customers and adding portfolio. So, Karnataka for example, which is currently at about 34% in GLP terms, should actually move towards 25%, 26% by the next two years' time. Similarly, other states also will come down.

Nikhil: So, Karnataka, Maharashtra, Tamil Nadu, all three will start trending down and the other states will be trending up.

Management: It should be less than 60% by the next 3 years time if there is a stable environment.

Nikhil: So for these three states, it should be less than 60% next year itself?

Management: No, next three years.

Moderator: The next question is from the line of Nilesh Jethani from BOI Mutual Fund.

Nilesh Jethani; Congrats for the great set of numbers. My first question was when I see your presentation, I see the loan officer growth in the range of 11% to 12%. And when I see the borrower count, it is in the range of 5% to 6%. Can you help me understand the disparity? the loan officers are hired at a higher number, but that is not reflected in the borrower count.

Udaya Kumar Hebbar: In loan officer to the borrower, there's some variation when we open new branches. What happens is we have opened 43 new branches, which means we added about 300 to 400 new employees also. This creates a variation that is one. Number two, the loan officers are built for the number of businesses to end, we would have a lot of a number of customers also. We still are impacted by a small variation in that overall, borrower per loan officer. So, otherwise, it's always stable.

Nilesh Jethani; So, going forward on a sustainable basis, when you guide for 22%-25% AUM growth. What could be attributed as a volume and what could be attributed as a value of the AUM per borrower growth?

Udaya Kumar Hebbar: Nilesh, I think I remember what you were talking about the loan officer versus the number of borrowers. What I said is that when we open the new branches and then plan to open new branches, we'll hire more employees, which will make a change in terms of the averages. And then number two, we also had write-offs during that quarter, which also had an impact on the averages. So, it's not very large, it's very small actually. But it goes up and down in the quarter when you do these two activities. Hope I answered your question.

Nilesh Jethani; So, going forward on a sustainable basis, say if you are guiding for a 20% to 25% kind of a growth. So, what portion could be attributed to borrower count growth and what portion could be attributed to AUM per borrower count growth?

Udaya Kumar Hebbar: So it will be a mix of three factors actually. One is borrower growth, other is what you call real people borrowed. That is because of the growth coming from the existing customers. What we normally observed in our business on a sustainable basis is 60% to 65% of growth comes from existing borrowers. About 20% to 25% growth comes from new borrowers in the existing branches. And the balance of 10% to 15% growth comes from the new customers from the new branches.

While so, the overall basis, we are planning that about 10% to 15% or 12% to 15% will be the borrower growth. Then 20% to 25% will be the portfolio growth. These are the combinations we are looking at.

Nilesh Jethani: And one last question on the NIM. I believe last time we were talking about making about 10% to 15% of the portfolio mix via asset-backed loan. So, I wanted to understand where are we in that process today. And if that share has to increase to 15%, how sustainable do you think NIMs are at the current level?

Udaya Kumar Hebbar: Currently, we are at a very very small portion because the current investment in Madura is treated as a non-microfinance book and we are changing the model. We are more on a pilot right now, probably about Rs.100 Crores is our portfolio right now. And more traction will be in the next year. But if you look at the long-term perspective, anybody who started the asset-backed book and the MSME book, it took at least four to five years to reach Rs.5000-6,000 Crores. So, our idea is that we should reach Rs.5,000-6,000 Crores in four to five years' time. So, therefore by that time probably be 10% to 12% of the overall portfolio. So, we are not in a hurry. We want to make the model right before scaling up and it's a new business for us. We also are planning very steadily and stable. First, after a successful pilot, we will get into the scalable mode. Which we will see in FY23 and FY24.

Moderator: The next question is from the line of Nidhesh Jain from Investec.

Nidhesh Jain: On the disbursement, why the growth in this quarter was muted? If I look at growth on last year's base, last year also Y-o-Y growth in Q3 is not that high, 3%-4% Y-o-Y last year. On that base also the growth is just 3% Y-o-Y this quarter.

Udaya Kumar Hebbar: This, I think I explained during my initial remarks. So, it looks a little low because our base was high. And last year, we already started a business quite ahead of the industry. And we actually use the entire pent-up demand in Q3 FY22. Therefore, the disbursements were quite high in the last year's Q3. So, therefore it looks like it's a bit too low comparatively that is all. I think the next quarter we will have a higher opportunity and we will do more. And currently, it is basically comparable to Q3, which was the early-early getting into and, using the pent-up demand mode after the COVID impact. In fact, if you remember, in August itself, we started expanding branches, acquiring customers, and the Q3 we really scaled up our business last year. So, we are comparing the very high disbursement to the normal disbursement.

Nidhesh Jain: And then what is the run rate that we achieved in the month of January? The disbursement run rate?

Udaya Kumar Hebbar: We were about Rs,1,800 Crores to Rs.1,900 Crores.

Moderator: We have the next question from the line of Prolin Nandu from Goldfish Capital.

Prolin Nandu: The first question from my side would be, you know when this NBFC-MFI regulation had come, we had certain expectations as to how this will change the scenario in terms of how it will increase the size of the opportunity for a player like us. Now since then few quarters have passed and one of the earlier participants questioned that we are still not getting enough data in terms of the overall borrowing of the household. So, and obviously, it also depends on how each and every MFI or MFI player is interpreting and executing this revised regulation. So, as we stand today, do you still feel that this is net-net a positive? And the quantum of benefit that a player like us would get, is same as what we had thought of when this regulation had first come?

Udaya Kumar Hebbar: Yes, definitely. So, why delay in getting the data is because the regulator allowed six months more for compliance by everybody. If you see October 1, was the effective date that means the first quarter of the new regulation for everybody. Therefore, we believe the difficult to get the data fully and to understand. Probably after a quarter, we'll be able to get a little more data on a community level, on a borrowing level, and those things. So, if you ask me, our own borrowers' data. Even if you take as of December, we will not get full meaningful data for the entire set of customers. Therefore, probably it's better to wait one more quarter to get meaningful data.

That's why I said it's difficult to get data fully right now because implementation only started in Q3 FY23 by many of the players. But from an overall basis, this will definitely help a lot in terms of the segment in microfinance, in terms of growth, in terms of the expanded microfinance customer base itself. And then some of the easing of the regulation, level playing field in terms of pricing for everybody. And then really the market-driven approach will start going forward in microfinance.

And then the last one is more of a legitimacy or you can say a matured business model. It is a clear acceptance of a mature business model from a regulatory point of view to showcase saying that this is a common business for everybody. So, all these things are definitely positive. On top of that, there's good support from the government and it starts with the guarantee scheme and the TLTRO funds earlier. So, I think overall there's a huge focus toward this model actually. Therefore, it will be a good opportunity for us to grow.

And on the other side, if you look at the overall potential market. If you take any calculation, about almost 170 million odd customers are supposed to be within this threshold for microfinance lending. Even if you count 6-7 Crores or 60-70 Million in excess, you still have about 90 million to 100 million borrowers who are yet to get formal finance. So, and majority of them in rural. So, with all things in place, with the legitimate under the improved business environment. We believe that this will be a good opportunity for the sector to grow. We strongly believe we have a very long highway to grow here.

Prolin Nandu: And the second question would be that we continue to invest in our tech platform, right? Both on the front end and at the back end. So where are we now? When we probably compare it with our peers across different entities, right? It could be banks or it could be other NBFCs or it could be small finance bank as well. In that transition or where are we now in terms of our tech versus the rest of the competition at both front as well as the back end?

Udaya Kumar Hebbar: We always look at tech initiatives at the core for this kind of mass volume, the large volume transactions. Therefore, we invested in core banking way back in 2015, and probably even now our peers in microfinance doesn't have core banking solution, if I understand correctly. Whereas, we actually, kept on upgrading it. We kept on enhancing the platform and then today, every employee uses mobile. As I said, the front-end platform, all information, majority of our operations are paperless. This is one of the reasons that we are one of the low-cost operators since the beginning. And if you see here, for at least six, seven years, we have been one of the lowest operating cost companies. Because of the efficiencies that we've built using this strong tech, internal as well as between branches and head-office, the back-end process, underwriting, data analysis and data warehouse. So, we invested heavily in it. And we believe we are in the right architecture, which is sufficient for us to take us to next level.

Prolin Nandu: Sir, the last question from my side would be, do you envisage the capital raise in anytime next year? And if that is the case, what is the management's thought process of probably doing it together with the promoters offloading some part of it as well. So, some clarity on this part?

Udaya Kumar Hebbar: Yes, it is. Currently, we at a consolidated level have a capital adequacy of about 24%. And we believe, which is sufficient for us for next four or five quarters. Maybe after the end of FY23-24, we may start working towards the next set of capital raises as we always believe that we should hold capital adequacy of more than 20%. So, at that time, you look at more of a QIP kind of thing. But we have to decide when and what amount and how we will do it. Promoter doesn't need any funding actually. They have met all their capital requirements, even for insurance investments. So, they don't need any funding. It is more of a QIP, that is all.

Moderator: The next question is from the line of Shreepal Doshi from Equirus.

Shreepal Doshi: Sir, just two questions. Firstly, what is the approach we are deploying for customers that have been written off by any other lender or by us? Like is there an approach of a cooling period for the customer or things like that? So, what is the approach for a written-off customer?

Udaya Kumar Hebbar: See a written-off customer data is available in the bureau. We are not lending to such customers. For our customers, if you know the customers well and if they are written-off but they paid back the value. I mean, paid back to us. So, if the group and centre approves them to take, then we will do it. So, it's the others, we don't take them.

Shreepal Doshi: And sir, the last question was with respect to liquidity. So, what is the liquidity that we want to maintain as a business as usual approach?

Udaya Kumar Hebbar: Our internal policy is to maintain the overall liquidity between 5% to 8%, on an average of about 7% of the AUM, which will be ideally sufficient for a stable period.

Moderator: We have the next participant in the queue for the question from Nishit Vora from Elara Capital.

Nishit Vora: I have a few questions. One would be, when would we see that NIM and ROA normalize after incorporating the positive benefits that accrue from the new RBI norms? And second question would be, what would be the ROE guidance in the long term that we see?

Udaya Kumar Hebbar: So, from RBI regulation change and then the related price change should give us a stable NIM. It will take you about 24 months to get the full benefit because the majority of our lendings are either 24 months or 36 months. So, currently, this financial year, we got about 50% benefit. Another 50% in another 12 months' time. That is one answer. So, the second one is about long-term guidance on a stable business. In the stable business, we believe our ROA is between 4.5%-4.75%, or even going up to 5%. And relatively, since we have actually wanted to maintain a minimum 20% adequacy. So, ROE should be around between 18%-19% to 22%-23%. That is what we expect in the stable period.

Nishit Vora: Also one more question, sir, if you don't mind. What would be the borrowing mix ahead that you expect?

Udaya Kumar Hebbar: Yes. One of the strategic views, we have been working is to strengthen our ALM. As I want to have a very stable ALM, diversified beyond borders. So, the idea is from a long term to get at least 30%-35% international borrowing, which is long-term and stable. And then other borrowings such as the BFIs in India or public NCD, a long-term borrowing has a 15% kind of thing.

The balance will be normal domestic PSL-linked bank borrowings and may go with the DA or securitization on a regular basis say 5% to 10%. The remaining 40%-45% will be stable domestic bank borrowings. This will be the borrowing mix, which will give us the advantage of very good positive ALM mismatch, very stable cash flow as well as a long-term advantage.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to Ms. Shweta Daptardar for closing comments. Over to you, ma'am.

Shweta Daptardar: On behalf of Elara Capital, we thank CreditAccess Grameen management to provide us the opportunity to host the earnings call. Thank you all.

Moderator: Thank you very much. On behalf of Elara Securities (India) Private Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.