"CreditAccess Grameen Limited
Q4 FY '23 Earnings Conference Call"
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MODERATOR: **MR. NIDHESH JAIN – INVESTEC CAPITAL SERVICES (INDIA) PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the CreditAccess Grameen Limited Q4 FY '23 Earnings Conference Call hosted by Investec Capital Services. As a reminder, all participant lines will be in the listen-only mode. 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 now hand the conference over to Mr. Nidhesh Jain from Investec. Thank you, and over to you, sir.

Nidhesh Jain: Thank you, Dorwin. Welcome to the Q4 FY '23 Earnings Conference Call of CreditAccess Grameen Limited. To discuss the financial performance of CreditAccess Grameen and to address your queries, we have with us Mr. Udaya Kumar Hebbar, MD and CEO of CreditAccess Grameen; Mr. Ganesh Narayanan, Deputy CEO and CBO; Mr. Balakrishna Kamath, CFO; and Mr. Nilesh Dalvi, SVP and Head of Investor Relations.

I would now like to hand over the call to Mr. Udaya Kumar for his opening comments. Over to you, sir.

Udaya Kumar Hebbar: Thank you, Nidhesh. Good evening to everyone. We thank you all for joining this conference call to discuss our fourth quarter and the FY '23 financial performance. It's comforting to acknowledge that we have once again achieved our annual performance guidance. We closed FY '23 by recording 26.7% Y-o-Y growth in AUM to INR 21,031 Crores, serving 42.6 Lakh customers. It was a historic year for us as we crossed INR 20,000 Crores AUM, becoming the first pure-play microfinance institution to achieve this feat. We were the only NBFC to feature in the top five of the Fortune India Next 500 list given our revenue profile.

We recorded the highest-ever quarterly disbursements of INR 7,171 Crores supported by robust customer additions. We need to note that during FY '21 and FY '22, renewals and new business originations happened in the second half due to COVID-19. Hence, the renewals are also stacked in the second half of this financial year. Further, we have laid emphasis on new customer additions and increasing business from 500 plus branches, which were opened over recent years to improve productivity.

As you all are aware, the CA Grameen-MMFL merger was approved by the National Company Law Tribunal, Bench of Bengaluru, on 15th February 2023. Going forward, we shall be reporting all the operational and financial parameters on a consolidated basis only.

Our customer base grew 11.5% Y-o-Y as we added over 12.3 lakh customers during FY '23 and 8.3% Q-o-Q as we added nearly 5.5 lakh customers in Q4 FY '23 respectively towards our pursuit of creating women entrepreneurs. Around 46% of our new customers added, came outside the top 3 states, which has been a trend for the last few quarters demonstrating the result of our diversification efforts. If we exclude the 3.4 lakh customers written-off during FY '23, 63% of which came from MMFL book, our customer base growth would have been 20.4%. We added 167 branches during FY '23, the majority in newer geography leading to a total branch network of 1,786 spread across 352 districts and 14 states. We are gaining healthy traction in newer geographies where we foresee gaining substantial market share in the coming years.

Our collection efficiency continues to remain normalized clocking at 98.2% (excluding arrears) efficiency levels similar to the last quarter. Our best-in-class asset quality is driven by a loyal customer base and our execution strength, which is a testament to sticking to basics by following the classical JLG model. GNPA at 60+ DPD reduced to 1.21% in March 2023 from 1.71% in December 2022, while PAR 90 reduced from 1.34% in December 2022 to 0.96% in March 2023. The net NPA fell to 0.42% in March 2023 from 0.59% in December 2022. Overall, ECL stood at 1.78% at the end of Q4 FY '23, which is again higher than our GNPA.

Our NIM improved further from 11.9% in Q3 FY '23 to 12.2% in Q4 FY '23, one of the most competitive in the microfinance industry. They are expected to remain in the range of 12% to 12.2% going forward.

As guided, our major drawdown in the last quarter came from domestic sources, helping stabilize our marginal and average cost of borrowing. Our marginal and average cost of borrowing for Q4 FY '23 stood at 9.4% and 9.5%, respectively. We would like to put on record that despite the repo rate raising by 250 bps in the last 12 months, our judicious mix of utilising various funding avenues has led to the average cost of borrowing increase of merely 60 bps to 9.5% compared to 8.9% at the end of March 2022. We have always strived to keep our interest rate to our customers one of the lowest in the industry, which is a factor of efficiencies built throughout the system.

We would like to inform you that ICRA has also upgraded our credit rating to AA- (Stable) outlook from an A+ (Positive) outlook, given our asset quality and earning profile. We are now rated by both ICRA and India Ratings with an AA- (Stable) outlook, being the highest standalone rating in the microfinance industry. Further, our inherent ESG adherence and strong compliance standards helped us to secure ESG ratings from Sustainalytics and S&P Global. Our ESG rating fares better than many leading BFSI companies in India and across the world. We have also obtained Second Party Opinion from Sustainalytics on the Social bond and Loan framework in FY 2023. These developments will further help us to assess ESG-linked funds from global lending institutions and further strengthen our liability profile going forward.

For the Q4 FY '23, NII grew by 32.7% Y-o-Y to INR 690 Crores, while the cost-to-income ratio stood healthy at 30.2%, which is 360 bps lower Y-o-Y. PPOP grew by 36.3% Y-o-Y to INR 503 Crores, demonstrating a strong operational profitability trend. For FY '23, NII stood at INR 2,234 Crores registering a 35.1% growth, while PPOP grew by 39.8% to INR 1,506 Crores, indicating a strong operating profitability trend. The credit cost in Q4 FY '23 stood at INR 105 Crores, including INR 14 Crores management overlay on the legacy book of MMFL amounting to INR 131 Crores or 0.6% of total AUM. The credit cost was partially offset by INR 16.8 Crores of bad debt recovery during the fourth quarter. Therefore, the net credit cost for FY '23 stood at 2.1%.

Our PAT grew by 86.4% Y-o-Y and 37.5% Q-o-Q to INR 297 crores during Q4 FY '23, resulting in ROA and ROE of 5.5% and 24%, respectively. For FY '23, we delivered a PAT of INR 826 Crores leading to a ROA of 4.2% and ROE of 18% meeting our annual performance guidance. We are further maintaining a comfortable capital adequacy ratio of 23.6% at the end of March '23.

Our expansive presence across India, differentiated operating model, customized product offerings, highly stable technology stack, experienced management team, diversified liability profile and strong balance sheet place us at the forefront to establish ourselves as the preferred financial partner to millions of underserved low-income households. Our business model based on the premise of suitable processes, products and pricing along with suitable servicing has always rewarded us.

Assuming a stable operating environment, we look forward to achieving loan portfolio growth of 24% to 25% in FY '24. Given our stronghold on borrowing costs, we foresee maintaining NIMs in the range of 12% to 12.2%, with a cost-to-income ratio between 35% to 36%. We are anticipating a credit cost of 1.6% to 1.8%. Overall, we aim to achieve a ROA of 4.7% to 4.9% and an ROE of 20% to 21% in FY '24. So with this, I would like to open the forum for questions and answers. Thank you so much.

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

Nikhil Rungta: Congratulations on a great set of numbers sir. A few questions, 2 to 3 questions from my side. To start with, first of all, your view on both sides of the margin, I mean, on the yield side. I mean, any more increase can we see in the new disbursement rate, which currently is 21.9%? And in turn, any more scope in the portfolio yield, which is at 19.7%?

And second part is, you already indicated the marginal cost of borrowing. So it's down to 9.4% from 10.2% in the December quarter. What are the key reasons? Do you think it will stabilize at this level or can improve any further from these levels? So this is the first question on the margin side.

Udaya Kumar Hebbar: Sure. Maybe I'll answer the margin question first. The change is basically when we borrowed more domestic borrowings in Q4, whereas in Q3, we borrowed a bit of international borrowings plus NCDs we raised. Therefore, the marginal cost was higher in Q3, whereas the cost is lower in Q4, as the majority of our borrowings were domestic borrowings. Therefore, the cost has come down. Therefore, the average cost of borrowing also has come down. So this is the difference that comes.

On the yield and NIM, so yield might go different, a little bit more than the Q4, but Q4 may be a bit of a benchmark with maybe a 20 to 30 bps higher possibility for the next financial year. In the meantime, NIM would remain in the same range of 12% to 12.2% as a little leverage impact will be there. Therefore, we presume that it will remain around that range.

Nikhil Rungta: Okay. And on this marginal cost of borrowing, do you think we'll stabilize at these levels if there are no more or hardly any repo rate hikes going forward?

Udaya Kumar Hebbar: It might go up a bit actually, our estimation is that it will still go up by about 20 to 30 bps because some of the MCLR increased by the bank who have not yet transferred to us because we have a lot of borrowings at 1-year reset clause. So with that, it may go up by 20 to 30 bps, but we can always pass on that with the next borrowing. Therefore, we still will be able to maintain our NIM within this range.

Nikhil Rungta: Okay. And sir, on the average ticket size, we are now at approximately INR 51,000. So, do you think it will stabilize at these levels? Or where are we planning to take it?

Udaya Kumar Hebbar: Yes, it's INR 51,000. That's a small increase on an annual basis about 9% to 10%, it will go up. So, there are two reasons. One is that our customer vintages keep going on. Two is 20% of our book, which is Madura, which is still at a low average because the base of that was very low when we took over. To that extent, that can still go up a bit. But if you look at the portfolio per customer, it's high in the top 3 states where we have high vintage customers, which is about INR 54,000. The entire balance is about INR 39,400. Therefore, it's not a worrying fact for us at this point of time. So, therefore maybe more on about 8%, to 10% might go up. But for any loan that we give more than INR 60,000, we give a three-year loan. Therefore, again, the repayment load on the customer also will not change. So, it will only further decrease then. Therefore, we are not seeing any vulnerability here also.

Nikhil Rungta: Okay. And what would be our next leg of growth? Would it be expanding into newer geographies or districts or deepening into existing districts? Further, do you think Madura might see strong growth given the recent court order on Telangana?

Udaya Kumar Hebbar: See, Madura will definitely grow faster because it has less productive branches, I would say, or we have enough headroom in the Madura branches. Therefore, it will give us good growth going forward. But overall, it will be expansion plus deepening, both will be together.

For example, we estimate about 14% to 15% customer growth, which will fuel that 24% to 25% portfolio growth. There will be about 8% to 10% branch expansion, and the acquisition of customers in the existing branches, which includes Madura's 480 branches which should give us extra headroom. But it will be fueled by customer acquisition all across. So, 14% to 15% customer acquisition will lead to 24% to 25% portfolio growth. That is what our estimation is Nikhil.

Nikhil Rungta: Okay. Last question, sir, from my side. Sir, now that we have already merged Madura with us. And yesterday, there were plans or talks that smaller MFIs are still unable to get a good rate of funding and hence, there are plans of making or creating a fund for helping the smaller MFIs. Do you plan or see any more inorganic acquisitions in the near future, say in the next 1 to 2 years?

Udaya Kumar Hebbar: So nothing in our plan at this point of time. Actually, we don't see any opportunity which is significant for our growth because even acquiring a smaller MFI is not an efficient process for us. Therefore, we don't see any inorganic growth opportunity at this point of time because unless it's complementary in terms of geography, in terms of product, in terms of culture, in terms of price, it won't fit for us. So, therefore we don't have any such plans at this point of time.

Nikhil Rungta: Got it. Got it. That's all from my side. I'll come back in the queue and expect to see a similar type of quarters from your side.

Udaya Kumar Hebbar: So maybe we'll add one more point. When we say expansion for your earlier question, so we still have a lot of opportunities for opening more branches in Gujarat, Rajasthan, Uttar Pradesh, Bihar and Jharkhand. That will keep continuing as our normal philosophy of contiguous growth, that will continue, which will add about 8% to 10% of new branches. That is also one of the key pointers in terms of our expansion.

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

Renish Bhuva: Congrats on a great set of numbers. Sir, 2 questions, one on the data side. So this quarter, we have seen other opex sort of falling by 10% despite we are opening more than 50 branches.

Udaya Kumar Hebbar: Can you just repeat, suddenly it becomes low. No, no, sorry, I think we lost you.

Renish Bhuva: Is it better now?

Udaya Kumar Hebbar: No. I think you need to repeat the question fully.

Renish Bhuva: Yes, yes. Okay. So on the other opex side, this quarter, we have seen there is a decline in other opex despite opening more than 50 branches plus the robust disbursement growth. So, what is the reason for the decline in other opex?

Udaya Kumar Hebbar: So opex has come down. Yes, in Q3, it was a little high on account of the fundraise, the NCD public issue, we raised now. That expense was part of Q3, therefore, it's basically a spike in that quarter. It is not a reduction in this quarter. We lost you again.

Renish Bhuva: No, sir, I can hear you.

Udaya Kumar Hebbar: Yes. You've got my point. No, it's not the reduction. Basically, the Q3 had a little spike because of the public NCD costs.

Renish Bhuva: Okay. So there was a big impact basically?

Udaya Kumar Hebbar: Correct.

Renish Bhuva: Okay. And sir, the last question from my side, a bit on the strategic front. So, as you rightly mentioned that we are the first MFI to cross INR 20,000 Crores of AUM. So from a, let's say, 2 to 3 years perspective, do you feel that there is a need for us to, let's say, start venturing into non-MFI products and build the non-MFI portfolio? Or do you feel there is enough headroom for the MFI portfolio to grow at 20% to 25%?

Udaya Kumar Hebbar: I think this discussion we had a year back, and we have initiated pilots. Lots of pilots going on, the scaling will happen. I think we explained earlier also. So, we have piloted many products and a couple of them are already scaling up. By the next financial, we are looking at good momentum there. I think our view is very clear, keep following our customers and keep enhancing the product for our mature customers. And again, work within the customer segment and ecosystem and then build the non-microfinance book also. I think we already explained earlier also that in 4 to 5 years' time, we will have about 10% to 12% of the non-microfinance book. And I think we are clear on that path, and we are working on that anyway. Maybe, Ganesh, you want to add a couple of things here.

Ganesh Narayanan: It's okay.

Udaya Kumar Hebbar: Great. So it is fine. So already, we have published this earlier also.

Renish Bhuva: Got it, sir.

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

Shreepal Doshi: Congrats on a good quarter. So my question was pertaining to yields. So I wanted to understand what is the rate hike that we have taken in the last 6 months? And what is our current yield for the group loan product and for the retail product?

Udaya Kumar Hebbar: Our current yield is about 21.9% on the new disbursements. And then the overall is about 19.7% for the quarter and the retail non-microfinance products are also by and large the same only. There's not too much because, in some places, it is higher than the group portfolio. So since it is insignificant now, it won't make too much difference currently.

Shreepal Doshi: Got it, sir. The second question was pertaining to the FOIR. So, what is the FOIR that we have for our existing customers?

Udaya Kumar Hebbar: As the regulation clearly says that it should not be more than 50%. But what we observed for about 70% to 75% of customers, the FOIR is less than 40% currently.

Moderator: We have the next question from the line of Suraj Nawandhar from Sampada Investments. Please go ahead.

Suraj Nawandhar: Sir, my question was really more of an industry-related question. Other players, even the smaller ones have given very strong guidance for the industry. Just one of the players in their concall said that the industry might grow 5x in 5 years. So my question was being the industry leader, do you also see such kind of growth coming into the overall microfinance industry? And if yes, then what are the triggers on the ground, which can lead to such kind of exponential growth in the overall sector?

Udaya Kumar Hebbar: Not really. We don't see. Definitely, our estimation is not that for the industry. We believe that the industry also will be within about 20%-25% CAGR for the next 3 to 4 years. Beyond that, probably it will further taper down actually. That's what our view. So, our estimation is within that.

Suraj Nawandhar: Okay. So then we are also planning to go around 25%, aren't we planning to go up higher than industry rates?

Udaya Kumar Hebbar: We shall also be in that range actually. So there are two parts to our growth. For microfinance growth, maybe slightly it will come down and non-microfinance will kick in. So, therefore together, it is 24% to 25% what we are talking. Microfinance might come to 22% to 23% by the next year and the year after. And other products will actually take over the pace. So overall growth, we are talking about 24% to 25%.

Suraj Nawandhar: Okay. And sir, what would be your branch expansion plans for this year?

Udaya Kumar Hebbar: As I said, we normally do between 8% to 10%. Earlier, we used to do more, but now because the base is quite high, our expansion plans are around 8% to 10% or 12% of our existing branch size.

Suraj Nawandhar: So around 80 to 100 branches.

Udaya Kumar Hebbar: No. We are at 1,786 branches currently, 10% is 175 branches.

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

Shweta Daptardar: Congratulations on a great set of numbers. I have two questions. One is if I look at the presence. So, as you rightly mentioned, largely the diversification is now coming by. So, if you look at the Eastern geography, the presence there has increased for the company, as well as there, have been positive signals coming from the Northern belt, especially UP. So, could you just throw light on the demographics and the positives coming from these 2 geographies and where the confidence has been reinforced?

Udaya Kumar Hebbar: See, I think for demographic expansion, we always go by contiguous district-wise. I agree that some states are a little different in terms of economic activity, growth and the GDP expansion is changing. But we always gain the benefit from going through this process of contiguous district approach. This helps us to understand the district better and then put our employees to work in the next district in a better way and have better control for that expansion. Risk and expansion costs are minimized, which helped us. I think despite those kinds of spikes, we still believe in going into the contiguous part. We are already in UP, we will continue to open branches in our bordering district. Similarly, we are also present in Rajasthan, Gujarat and Bihar where we continue to open. So, we keep actually acquiring that kind of, what you call, new geography through a district-based approach. With the typical replication of business, we don't see too much difference in terms of repayment or disbursement or acquisition. This helped us to grow very sustainably in all these areas.

Shweta Daptardar: Right, sir. Well understood. So secondly, you did guide on the cost to income at around 30% to 35%. So, where do you see the synergies and triggers coming to maintain this kind of quality number because even if I look at opex to assets, you are one of the lowest in the industry. So how do you see the sustainability here going forward?

Udaya Kumar Hebbar: If you look at the last 5 years, we're still sustained within that, right? I think we have been within the optimal cost range. It's more of replicating that model. And now that we have the ability to price based on risk, therefore, even the margin is better compared to the earlier regime. So, then the credit risk also has to come down, it's already coming down. We are seeing that happening.

And all these things including our own historic quality of operations, sustainability we've maintained over a period of time and very calibrated growth. All these will help us to manage and keep on improving the overall efficiency, overall financial results. I think what we talked is from 36% to 35% to 34% kind of thing, which is definitely possible with the economy of operations plus quality.

Shweta Daptardar: Got it, sir. Sir, and one last question. What is the scenario on the ground in terms of center meeting attendance?

Udaya Kumar Hebbar: So, we have been witnessing a very good improvement over a period of the last 6 to 12 months. We had a little lesser attendance just after COVID, but by and large, we are back to normal. Maybe pre-COVID to post-COVID, the variation is maybe about 5% to 6% today. So, we are quite good at that.

Moderator: Thank you. The next question is from the line of Rajiv Mehta from Yes Securities.

Rajiv Mehta: Many congratulations on a strong set of numbers. So sir, firstly, a clarification, you spoke about 70% to 75% of customers having a FOIR of less than 40%. This is incremental, right?

Udaya Kumar Hebbar: Yes. It's a new disbursement only, Rajiv. We are not going back and checking the existing borrowing. If you see largely, we disbursed about INR 17,000 Crores to INR18,000 Crores, so largely about 60% of the portfolio. 70% of the portfolio is new today. So, automatically, largely it represents.

Rajiv Mehta: Got it. Got it. And sir, can you share the average disbursement ticket size, for Q4 and Q3?

Udaya Kumar Hebbar: It is about INR 37,000, the average ticket size, right?

Ganesh Narayanan: Average disbursement.

Udaya Kumar Hebbar: Average, about INR 45,000, sorry.

Rajiv Mehta: And has it gone up significantly in Q4 versus Q3? Because I see an 8% to 10% jump across vintages in your portfolio per borrower.

Udaya Kumar Hebbar: Yes. The one linked to vintage would have gone up that way because it's a natural phenomenon as the customer vintage goes up, this will go up. Plus, we also had a good disbursement in Madura, so slowly we are aligning bad customers, those customers' GLP also. So, to that extent, if you cover, it might have gone up by 7% to 8% considering both these factors together.

Rajiv Mehta: Sir, actually, I'm looking at CA Grameen vintage-wise borrower. The average GLP per borrower for CA Grameen vintage-wise and across vintages, it has grown by 8% to 10% on a Q-o-Q basis.

Udaya Kumar Hebbar: Correct. You're right. That's correct.

Rajiv Mehta: So, would that be driven by higher incremental ticket sizes in this quarter?

Udaya Kumar Hebbar: There's a minor change, in particular, the high vintage lines. But it is not a big change in credit policy. So, I think if you see Y-o-Y, the increase is about 8% to 10% only, the overall GLP per customer. The increase is in the Madura book, if you see the slide, there is an increase about 28%, that's why the overall change is there. Correct. If you remember, it was just INR 18,000 when we started operating with them.

Rajiv Mehta: Correct. Correct. So, sir, actually, I was coming from the fact that now the loan ticket size is not determined by FOIR. Then, do we have a scope for kind of going higher on the ticket size? Because you're also guiding for FY '24, that 8% to 10% of the portfolio growth can come from an average ticket size increase. That is something we cannot predict, right? Because that will be determined by the borrower's leverage and the FOIR which is available.

Udaya Kumar Hebbar: No. It is determined by the vintage actually. Our vintage customers also keep increasing by 5% to 10%, right? So, automatically, to that extent, the increase will be there. So, because for every renewal, if you see, we have 88% customer retention, which means if we renew that automatically, they'll say additional limits available to them, right? So, automatically, there will be a little increase. If you see, the 10% growth will come from renewal and increase and the 15% growth will come from new customer acquisition. This is what is normal. Even if you see last year also, this was the case by and large. There was a bit of aberration because of the write-off and mix. Otherwise, our new customer acquisition was almost 20% last year also.

Rajiv Mehta: Got it, sir.

Udaya Kumar Hebbar: One more thing, Rajiv, I just wanted to reiterate the point that we would always try and see adequate money rather than restricted money. And try and see for the vintage clients, it is sufficient for their life cycle, and as much adequate to them rather than just restricting with the ticket size. So, that's only with vintage clients, who are there for more than 4 years with us, the risk levels are less, where we are looking for adequate funding.

Moderator: The next question is from the line of Sagar Shah from Phillip Capital.

Sagar Shah: First of all, congratulations to the entire team for such a great set of numbers actually. So, my first question was related actually to our loan book. So, in our retail finance portfolio, which comprises individual loans, two-wheelers, LAP, gold loans, affordable housing. How do you see in the next 2 years scaling up that actually as compared to microfinance? You already explained actually the entire industry is focusing towards growth, and there is demand actually on the ground. So, how do you see the retail finance portfolio as part of CA Grameen actually going in the next 2 years first of all and in terms of products also?

Ganesh Narayanan: So, this is Ganesh here. As we guided, right for the next 4 to 5 years. Our indication over the next 4 to 5 years is around 10%. In that range, probably how we grow over the next 2 to 3 years will also base upon our experience in scale. So right now, we have 82 retail finance branches where we are doing mortgages, which is a loan against property as the primary product. So affordable home loan is something that we will pilot during this year.

Some products will scale during the year, like your unsecured individual loan for graduated customers, two-wheelers, you will see a scale-up in loans against property. Affordable home loan will be a pilot. Gold loan is anyway a long pilot for us, and we don't see a large volume coming from it. So, overall retail finance majority growth will come from mortgages. It will come from two-wheelers and it will come from graduated customers borrowing unsecured loans from us. I hope I answered your question.

Sagar Shah: Yes, yes, absolutely. So just a follow-up on that. How are you actually classifying as graduated customers of individual loans from the JLG loans?

Ganesh Narayanan: This is basically a combination of factors if I have to put it. So it's a mix of the vintage of the customer, it's a mix of credit behavior with us. It's a mix of the customer profile, income earnings, capacity to demonstrate cash flow, multiple income streams, etc. This is basically cherry-picking customers who have got a stable business and stable income, right? You will have to look a little more. And hence, we have also guided these unsecured loans to graduated customers that even in the long term, will be anywhere between 5% to 7% of our overall book, not beyond that.

Sagar Shah: Okay. Got your point, got your point. So, I got an idea about how you actually plan to scale up your retail finance book. Now, coming on to your portfolio yield actually. Although, retail finance obviously offers a lower yield, but it was hardly comprised, if I am not wrong as per my estimate, not more than 5% to 6% in the next 2 years on a broader level on the consolidated portfolio. So, we are at 19.7% as of now. So, in the next 2 years, how do see your yields shaping up? Or maybe are we planning to increase our yield in microfinance as other players are offering more yields than you. The portfolio yield is even better than yours. So basically, how do you see your yield shaping up in the next 2 years?

Ganesh Narayanan: See, our retail finance book does not dilute our yields. It is in a similar range of microfinance because this is a different segment we are working on, right? So the maximum ticket size is around INR 20 Lakhs when it comes to mortgage, average ticket size is INR 5.5 Lakhs, INR 6 Lakhs. So this is the affordable home segment, small ticket LAP. This is not diluting our returns when it comes to business, even a two-wheeler does not dilute our returns.

Gold loan, we've already said that these are short-term in nature. Hence, once we pick up volumes, we can borrow short-term money and hence, it will not have a hit on our yield. Again, in microfinance, we've guided a NIM of 12% to 12.2%, we should be able to manage that, right? So that's what it looks like.

Udaya Kumar Hebbar: The yield is dependent on the pricing. The price goes up, for example, if borrowing cost goes up, probably it should go up. If the price comes down, it will come down. But what we have to look at is the NIM, which is 12% to 12.2%, probably the best in the industry today.

Sagar Shah: Okay. Sure, sir. So, basically, I used that point one of the earlier participants had asked you. Your cost of borrowing is down sequentially. So, can you state again the reason, we are at around 9.5%. And secondly, you already told that if the bank raises MCLR, then we will be around 20-30 bps higher. So, but any reason for such a sequential decline in the cost of borrowing?

Udaya Kumar Hebbar: It's only declined from a marginal cost from Q3 to Q4. Q3, our marginal cost is high because we borrowed high-cost funds and also raised public deposits. There is a public NCD, which was a higher cost for the longer term. Therefore, the marginal cost for Q3 was higher, and it's come back to normal again. In Q4 it has reduced because we did not raise such high-cost long-term funds. That's the only difference.

Sagar Shah: Okay. Sure, sir. And now my final question actually is related to microfinance. Microfinance, as you have guided for about 24% to 25% growth on a broader level. But on the ground, even with a higher yield, how is the demand in the rural actually shaping up? Now you're even moving to other states from Karnataka, Maharashtra, and Tamil Nadu. So, how do you see demand in the other states? Do you see this demand sustaining in the next 2 to 3 years? Or do you see that this is just something like a pent-up demand sort of after almost a downfall we saw for 1 to 2 years?

Udaya Kumar Hebbar: For us, it looks sustainable at this level because if you see even the previous year, we grew by 23%. Now, we grew by 27%. But we are guiding about 24% to 25%. We believe it's sustainable and with the increased customer and geographic expansion, which will help us to grow. We believe it is possible for 23% to 24%.

Moderator: Thank you. The next question is from the line of Piran Engineer from CLSA. Please go ahead.

Piran Engineer: So, my first question was are our competitors also giving 3-year loans for higher ticket-size products? Or the industry is at 2 years and we are unique in this product?

Udaya Kumar Hebbar: We are not sure, actually. We are not sure. We have been doing this for the last 2 years, actually. So currently, 29% of the portfolio is 3 years.

Piran Engineer: Okay fair enough. And sir, secondly, just I noticed between Q3 and Q4, there's a sharp jump in the ticket size in retail finance from INR 50,000 to INR 85,000 to INR 90,000 am I reading that wrong?

Udaya Kumar Hebbar: You're reading right. Our majority of the mortgage pilot picked up in Q3 and Q4, therefore the average has gone up.

Ganesh Narayanan: The erstwhile unsecured book, which was with a lower average ticket size is running down, right? And you are disbursing average ticket sizes of INR 5.5 Lakhs in retail finance. So, the old book is running down and the new book is catching up and hence, you will see an increase.

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

Nikhil Rungta: Sir, two things. First, what would be our outstanding return of the portfolio? I mean, if we see bad debt recovery this year, it was INR 58 Crores. Last year, it was INR 74 Cores. So going forward, what type of outstanding portfolio do we have and what type of recovery we are predicting?

Udaya Kumar Hebbar: So in our experience, Nikhil, all these write-offs have been played hard for 270 days before writing off. So therefore, in our experience, all the recovery, we will recover only 10% to 15%

over 2 to 3 years. Today, we have about close to INR 2,000 crores of write-off book. And so far, we already recovered against that about INR 195 crores. And then we keep increasing. Now the speed may go up a little bit. But eventually, it will stay between 10% to 15% or 18% of the recovery in 2 to 3 years' time because it won't go too much high also, this is our experience.

Nikhil Rungta: Approximately, INR 50 crores to INR 100 Crores approximate amount will continue to come in, in every year.

Udaya Kumar Hebbar: Yes. You're right.

Nikhil Rungta: Okay. Sir, one more question on the competition now. I mean, Bajaj Finance has recently announced foraying into MFI. I don't want your commentary on Bajaj Finance, but I want your view on the competition which now has started coming in from the larger NBFCs. These guys have definitely a presence in deep rural areas. So what is your view on the competition coming in from there?

Udaya Kumar Hebbar: Yes. We expected this competition because after regulators recognized the mainstream business and had made a common rule. So, there is a potential that some of them will add this as one more portfolio. But keeping ourselves ahead of the competition, the pricing, the process and the quality efficiency always helps us. Our sense that the potential is so large, we still have close to 10 crores households not touched by or not accessed microfinance or formal finance. I think there's a huge potential for co-existence everywhere. Many times, the new entrants will start in the urban and then go to rural. But being in the rural already, probably we have a little upper hand, with the potentially better process and better products and better prices that will help us.

So we expect that some competition will go up. We expect some co-existence will be there in all places. Even now when we go to rural, our new to credit is still more than 30% even now. So, we believe that that will remain for at least the next couple of years. And also, the other side is 70% is coming from other MFIs who lend them and they borrow from us. So, over a period of time, they will stay with us only. That is the trend, almost. We saw that in one year's time, 11% of customers who borrowed from others joined us, stayed back with us, but left others. I think this is going to be a competitive game going forward slowly.

Moderator: Thank you. The next question is from the line of Aditya Padhi from Girik Capital. Please go ahead.

Aditya Padhi: Great set of numbers and congratulations to the team. I just have one question on the operational front. I'm referring to Slide 22, where do you see the borrowers per loan officer going forward in the future? Like over year-over-year, I have seen like around a 4.5% increase versus borrowers per branch having grown by 2%. So, is that the math going forward? Or do you have like a credit number or rather you would invest anything in IT versus the human capital to increase the borrowers per loan officer?

Ganesh Narayanan: The average numbers that you are seeing in the PPT typically go up and down depending on the new branches that you opened and the fresh employees you had. Last two years, you have seen a dip because of write-offs, higher write-offs. But a better number for you would be to see in an ideal state, in a state where we are for a certain period of time. We can reach anywhere between

500 to 550 customers per loan officer. So that is the number we target over a period of time depending on the life of the branch.

Aditya Padhi: Okay. Sure. So, sir like how many years would you consider for a branch and a branch officer to have that around the 500 number?

Ganesh Narayanan: 3 to 4 years.

Aditya Padhi: 3 to 4 years. Okay perfect. So that's the growth that you see going forward. Say in 2021, if I added a branch, in 2025, where it should be adding?

Udaya Kumar Hebbar: Yes, absolutely, correct. Even otherwise also, we don't look at productivity from an angle of the number of borrowers per loan officer. We don't want them to handle too many. It's more of how many centers they can handle per day rather than the number of borrowers they handle because this is always a relationship business. Therefore, there has to be sufficient space for the employee to work and the number of customers needs to be lesser other than very high. So, each one of them will handle 5 to 6 centers only per day. So, that is the count rather than the number of borrowers we watch actually.

Moderator: Thank you. The next question is from the line of Pooja Ahuja from Monarch Networth. Please go ahead.

Pooja Ahuja: Congrats on the quarter. Most of my questions have been answered. So, I just wanted to understand the attrition that we see in our borrowers. If you could provide some more color in terms of where do we see these borrowers moving to? Maybe other NBFCs or SFBs or banks, some color on that, sir?

Udaya Kumar Hebbar: Yes. I'll give to some extent only. I can give the estimates actually because we do a couple of checks of a dropped-out borrower. We keep tracking them for some time, at least for a year, what they're doing. So, what we saw is about 60% of dropped customers from us have no borrowing thereafter actually. So, they're actually winding down from the borrowing, maybe they don't want to borrow more thereafter. Or spouse somebody started borrowing so that they don't need to borrow. That could be one reason. Other 40%, we saw some of them moving into the upper segments like different NBFCs for higher requirements. That is where our pilot started.

Because of these insights, we started these non-MFI products for such customers. If they are going to an NBFC, why don't we create that product. So, that is a bigger reason for us. Let us follow our customers who are not only graduating, but who are asking for different products other than microfinance, we can address them. Whether it is housing or larger business or mortgages or two-wheelers or individual business loans, everything we are addressing. So, it's a part of our research to address this. This is one of the reasons we started the non-microfinance business. But frankly, 60% of them, we found that they're not borrowing.

Pooja Ahuja: Right, sir. So, sir, out of 40%, any ballpark, if you could share, how many are moving because of higher ticket size, which we can now capture. And how many could be moving to, let's say, other products?

Udaya Kumar Hebbar: So, we have not done that kind of demand and supply. We only checked it from the bureau's point of view because they are no longer with us. What they borrow or do, we have the data anyway. So, we check with Bureau and ascertain. I think we have not checked beyond that.

Pooja Ahuja: Sure. Understood. And lastly, do you see borrowers from any second or third lender coming to you?

Udaya Kumar Hebbar: Yes. We see that it's happening. A strong word-of-mouth factor is in favor of us. So, we saw 70% of the ETC is our new customer, there are cases of 2 lenders and 3 lenders also. But we look at our overall borrowing as criteria. We kept what you call, breakup both for new customers. Total borrowing from the household should not be more than X to join us. So that's already there. But we feel that they can enjoy our products sold and over a period of time, they may be our unique customers eventually. So that's happening.

Moderator: The next question is from the line of Rajiv Mehta from Yes Securities.

Rajiv Mehta: Yes. Sir, just one question on the industry. Sir, in your view and as per your knowledge, is the industry following this household-level FOIR based loan eligibility in true spirit? And whether the data availability from the bureaus is clean and complete.

Udaya Kumar Hebbar: We have not made many analyses so far actually based on the income because it's only just the last two quarters. But maybe some of them are following the true spirit, very difficult to define because everybody claims that they are following. But right now, we don't have clear data. Maybe in three to four quarters together, if you start reviewing the entire data of the household, probably we will get some sense after some time because many of them started after October only. Therefore, it will take some more time to get a full insight into how this is happening.

Rajiv Mehta: But the leverage data of the household debt is completely available, right?

Udaya Kumar Hebbar: Yes. We are not seeing too much variation. But still about, yes, 10% to 12% leverage variation when we take our income versus you see the trending. But, we will not know the leveraging in the other end, right? Yes. When they come to us, we have the leverage to that extent. But overall, we don't have full insights at this point of time.

Moderator: Ladies and gentlemen, that was our last question for today. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Udaya Kumar Hebbar: Thank You. Thank you to all of you for hearing us patiently and looking forward to any queries. You can reach us at our investor desk and Nilesh will take care of any further queries you have. So thank you so much, and have a good day.

Moderator: Thank you. On behalf of Investec Capital Services, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.