"CreditAccess Grameen Limited
Q1 FY24 Earnings Conference Call"
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MODERATOR: **MR. SHREEPAL DOSHI – EQUIRUS SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to CreditAccess Grameen Q1 FY24 Earnings Conference Call, hosted by Equirus Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shreepal Doshi. Thank you, and over to you, sir.

Shreepal Doshi: Thank you, Seema. Good evening, everyone. I welcome you all to the Earnings Conference Call of CreditAccess Grameen to discuss the Q1 FY24 performance of the company, industry trends and business updates. We have the management team of CreditAccess Grameen with us represented by Mr. Udaya Kumar Hebbar, who is Managing Director and CEO; Mr. Ganesh Narayanan, Deputy CEO and Chief Business Officer; Mr. Balakrishna Kamath, CFO; and Mr. Nilesh Dalvi, who is Head of Investor Relations.

I would now like to hand over the call to Udaya sir for his initial comments, after which, we can open the floor for questions and answers. Over to you, sir.

Udaya Kumar Hebbar: Thank you, Shreepal.

Good evening to everyone. We thank you all for joining this conference call to discuss our first quarter FY24 financial performance.

Before we commence the discussion on Q1 FY24 results, I take pride in informing you all that we have entered the 25th year of our operations, playing an instrumental role in expanding financial inclusion across the length and breadth of our country. Our strong fundamentals, work ethics, customer-centric business model, and employee-centric operating model have helped us to remain socially relevant and become the preferred financial partner to a large number of low-income households across rural India. While our aim is to soon surpass INR 25,000 Crore loan portfolio during the 25th year of our operations, the next 4-5 years plan is to see us doubling our loan portfolio to over INR 50,000 Crore by leveraging our solid foundation and leadership position in the microfinance industry.

Talking briefly about the first quarter, we witnessed strong business momentum led by growth in our customer base. We added 3.28 Lakh customers, of which 47% came from outside of the top 3 states. Our customer base grew 19.9% YoY and 3.7% QoQ to 44.2 Lakh. Our AUM grew 39.7% YoY and 3.7% QoQ to INR 21,814 Crore while the disbursements grew by 122.3% YoY to Rs 4,771 Crore. Our footprint expanded with 40 new branches, taking the total branch network to 1,826 branches across 353 districts.

Our interest income grew by 50.1% YoY and 14.6% QoQ, largely driven by robust loan portfolio growth in the fourth quarter and the benefit of loan re-pricing over the past 12 months. Our average and marginal cost of borrowing for Q1 FY24 stood at 9.6% and 9.7% respectively. Since our cost of borrowing largely remained stable during the quarter, our NIM expanded to 13.0%.

However, we expect some increase in the cost of borrowing over the coming quarters as we work towards increasing the share of long-term borrowings. The USD 100 Million drawdown under the social loan facility happened in the last week of June. Hence it did not impact the cost of borrowing in the first quarter. We should see its impact in the second quarter. Further, we shall complete the drawdown of the remaining USD 100 Million under the social loan facility in the second quarter. Also, we have to work towards raising the second tranche of public NCD before November 2023. These drawdowns would result in a 20-40 bps increase in our cost of borrowing over the coming two quarters. However, on the lending side, we should also be cognisant of the fact that 16% of our loan portfolio which is pre-April 2022 originated, is yet to be re-priced and should provide some cushion against the rise in the average cost of borrowings. Hence, as of now, we reiterate our guidance of 12%-12.2% NIM for this financial year.

Our maiden USD 200 Million syndicated social loan facility marked the first such transaction in the NBFC-MFI industry and the fourth in the country. This has helped us to broaden our lender base to over 70 lenders with many banks from Taiwan and the Middle East taking maiden exposure to the Indian microfinance industry through this transaction. This also resulted in increasing our share of foreign borrowings to 19% at the end of June 2023 compared to 14% in the last quarter. Our liability strategy, which is essential for keeping the growth engine well in place is playing out really well, with 39% of total drawdowns in Q1 FY24 coming from foreign sources and undrawn sanctions in hand also coming 27% from foreign sources. This will further diversify our liability profile, increase the share of long-term and stable funds, and enhance the positive ALM mismatch as per our plans. We continue to pursue our plan on liability diversification as we grow larger.

Our operating profitability significantly improved in the first quarter, with the net interest income growing by 65.4% YoY to INR 763 Crore and the Cost to Income ratio declining from 39.7% in Q1 FY23 to 30.8%. We expect Cost to Income Ratio to moderately increase in the coming quarters and shall remain within the guided range, as we invest in branch expansion, technology initiatives and additional measures for building manpower for growth and controls in the coming quarters. PPOP grew at a healthy pace of 87.7% YoY to INR 544 Crore. The credit cost in Q1 FY24 stood at INR 76 Crore, including INR 7.8 Crore management overlay on the legacy book of MMFL which was only INR 72 Crore or 0.3% of the total loan portfolio. The credit cost was partially offset by INR 12 Crore of bad debt recovery, resulting in a net credit cost of 0.3% in Q1 FY24. Our collection efficiency (excluding arrears) stood at 98.7% at the end of the first quarter. GNPA measured at 60+ DPD reduced further to 0.89% at the end of June 2023 compared to 1.21% in the last quarter while Net NPA stood at only 0.27%, signifying best-in-class asset quality. Our PAR 90+ stood at only 0.70%.

PAT grew 151.5% YoY and 17.5% QoQ to INR 348 Crore during Q1 FY24, marking the highest-ever profitability in the first quarter. This resulted in RoA of 5.8% and RoE of 26.4%. The capital adequacy ratio remained comfortable at 24.4% at the end of Q1 FY24. The strong performance during Q1 FY24 vs. our guidance was primarily due to robust customer and portfolio growth. While we do anticipate borrowing and operating costs to moderately increase over the coming quarters, we believe that the benefits of strong portfolio growth in the first quarter will continue to accrue in the form of higher interest income over the coming quarters.

Hence, we shall continue to monitor our performance and re-evaluate our annual guidance after two quarters.

Before I hand over the forum for the Q&A session, I would like to quickly touch upon the successful promoter stake sale, comprising 90 Lakh shares or 5.7% share, which was consummated on 30th June 2023. As informed earlier in our various communications, this transaction has helped us to further expand our shareholder base and increase the free float in our stock. Post this transaction and the issuance of shares to MMFL shareholders as per the share swap arrangement post-merger, the Promoter holding now stands at 66.77% as on 30th June 2023. The Institutional investor holding has increased from 21.95% in March 2023 to 27.12% in June 2023. The transaction received strong interest from both existing as well as new investors. As indicated earlier, this measure was facilitated by our promoter for broadening our shareholding base as well as free float, and we have largely achieved our objective quite successfully. The patient capital from CreditAccess India B.V. and their firm support will continue to help us channel our energies towards fulfilling the growing business potential as presented during our Analyst Day on May 18, 2023, and most of you joined in this conference.

Lastly, I would like to congratulate Ganesh Narayanan for being elevated to Chief Executive Officer effective from 1st August 2023 subject to shareholders' approval in the upcoming AGM. Consequently, I shall continue to lead as Managing Director.

Thank you for your patient listening. We may now open the forum for the question-and-answer session.

Moderator: Thank you very much. We will now begin with the question-and-answer session. We take the first question from the line of Mr. Nikhil Rungta, Nippon India Mutual Fund. Please go ahead, sir.

Nikhil Rungta: Yes, hi, sir. Thanks for the opportunity. First of all, congratulations on a great set of numbers. And also, congratulations to the new CEO, Mr. Ganesh. Sir, just a couple of questions from my side to start with. First of all, this is one of those seasonal quarters wherein we see the weakest quarter for our company in general on an annualized basis.

But this time we have gone against the trend. So do you see this as structural that all four quarters would remain as strong quarters or is it just a one-off in terms of seasonality?

Udaya Kumar Hebbar: I think it was supposed to be a good quarter even last year but we took the decision to implement regulatory changes. Otherwise, from July onwards, we have grown well. Last year also, if you remember, in Q2, we did extraordinarily well and we are continuously doing well.

But in any case, in the first half, normally in this business, performance is about 40% of the annual growth. So, 60% normally goes to the second quarter. Our sense is that it will be a continuous, strong performance going forward because we have built everything, and every pillar of the organization is in place. Every pillar of our engine is in place. Therefore, we believe we will be able to perform quite well in all quarters.

Nikhil Rungta: Okay. And since we have grown at 40% in terms of AUM, but you have maintained your guidance of 24% to 25%, do you think there is a significant upside risk to our guidance, both in terms of AUM growth or margins or ROA or ROE or anything? I mean, because if I compare or collate this with my first question, then Q1 being the weakest quarter for the year, the guidance should have an upside risk. So do you believe that could be a possibility?

Udaya Kumar Hebbar: As I said in the initial remarks, the customer acquisition improvement as well as disbursement picked up, which has contributed to better performance this quarter. And that benefit will keep occurring for the entire year. But still, we would review after Q2 or Q3 to re-evaluate our guidance.

Nikhil Rungta: Okay. And sir, last question from my side. How much yield repricing is still pending in our AUM as of now? I believe you touched upon this in your opening remarks, but things were not clear. So, I just wanted to clarify that.

Udaya Kumar Hebbar: About 16% of the portfolio is yet to be repriced. Therefore, that's what exactly we said. Though there is a potential increase in the cost of borrowing, there is a repricing also there for about 16% of the portfolio. So some cushion is available. But we need to watch for the next two quarters to evaluate our overall guidance.

Moderator: Thank you. We take the next question from the line of Mr. Sumit Rathi from Centrum PMS Please go ahead, sir.

Sumit Rathi: Thank you for giving me the opportunity and congratulations on the great set of numbers, sir. So my first question is on the qualitative side, how are we seeing Bihar and Uttar Pradesh as geographies and the other newly added geographies where we are adding on our branches incrementally, how have you been experiencing things so far, sir?

Udaya Kumar Hebbar: Our experience in all the states, particularly Bihar, UP, Odisha and Jharkhand are quite good. And we are not seeing any weakness or difficulty in any geography there. All are performing very, very well.

Sumit Rathi: Great. Another thing, sir, our GLP per branch is around INR 12 Crore and our GLP per loan officer is around INR 1.8 Crore. So where do you see, in a steady state business, the saturation point to come, which makes you decide to open a new branch or add an incremental employee and also if you can add branch covers what kind of catchment area on a steady state for us?

Udaya Kumar Hebbar: So you know branch when we start over a period of time, it grows. What we decided is when branch crosses about 7,000 customers, we actually open one more branch and shift the portfolio to the other branch so that both can go together. The load is managed in such a way. But as a loan officer, the outcome of how many customers he handles is the outcome of how many centres he handles actually.

So therefore, we limit the loan officer to handle not more than 5 to 6 centres so that he can manage the relationship well rather than just collecting money. If the number of centres is five to six, the maximum portfolio he may handle is between INR 1.8 Crore to INR 2.2 Crore, depending on the geography, and depending on the vintage of the customers as well.

Sumit Rathi: Great, sir. Sir, on our new types of loans which we have come up with and envisaged the idea about that in our recent meet also. How are we seeing the progress over there? On the ground level?

Udaya Kumar Hebbar: Yes. Yes, it's a quite good pilot. We actually published that two of the pilots will continue, and three of them will start scaling up, particularly individual business loans, individual LAP as well as 2-wheeler will scale us and gold loan will continue to repilot if we want to test more, whereas affordable homes, we had to start the pilot this year. So all are giving a very good result so far. So but we are continuing to scale it up and then test more. I think at this point in time, it is only about 1% of the business. As we grow, we'll start publishing the numbers also.

Sumit Rathi: That's great. And one last question. On the cost-to-income ratio, this quarter would have been probably one of the best quarters at 30%. So how do we envisage this on a steady state basis? Is it like 34% to 35%? Or it can be below 34% and slightly up 30%? Where do you see it going given that great momentum and business pickup has been observed?

Udaya Kumar Hebbar: What we guided is 34% to 35%. Right now, we are reconfirming our ability to meet the guidance and maybe after one next one or two quarters, we will re-evaluate and come back if there is a change in our guidance in all the four parameters that we guided you.

Moderator: We take the next question from the line Mr. Renish Bhuva from ICICI. Please go ahead, sir.

Renish Bhuva: Yes, hi, sir. Congrats on a great set of numbers and congrats to Ganesh for the new role. Sir, just two questions again, sorry to circle back to the cost part. If you look at this quarter, you know there is no one-off income and at the same time, there is no one-off expense as well. I mean, is it fair to assume that this 31% cost to income is the new normal given maybe we are now actually benefiting out of this scale and we might not get back to those 34% -35% cost to income? I mean what is your internal assessment of this, sir?

Udaya Kumar Hebbar: It's difficult to assume with one-quarter change, you know, Renish. So that's why we said that we'll watch for one or two more quarters to review and come back. Because as I explained in the initial remark that, there are certain costs might come in Q2 as we grow, we have to open more branches, we are actually adding more manpower for control and growth. There are some costs that will become upfront, right? Therefore, it is difficult to assume right now. We need to watch for stable one more quarter to review this.

Renish Bhuva: Okay but later, we are not going back to let's say those 38% - 40% cost to income, which we used to have let's say in FY18 – FY19?

Udaya Kumar Hebbar: But in any case, we have guided that 34% to 35% rate, we are ensuring that, we will be able to reach there.

Renish Bhuva: Got it, sir. And sir, my second question is slightly at the maybe industry level or slightly longer term. So let's say since FY23, we, the sector or industry have been going through one of the best cycles and have been growing almost 20%- 25% at the industry level. Of course, good players like you are growing a bit faster. But historically, we have seen, whenever an industry has seen this kind of growth for two years, or three years, there is a tendency of any state or any pocket sort of derail the momentum. So internally, sir, what kind of early warning signals do you guys track to frame the business cycle? It could be, let's say, a centre attendance or anything.

Udaya Kumar Hebbar: In the analyst meeting we have clearly told about how our control systems and risk management are able to control the growth as well as the credit monitoring. We have put in a strong monitoring system and multiple defense systems. I think the three defense systems, we mentioned, while before acquiring clients and then after lending to them. And top of that, creating loyalty and high touch. All these are very, very important to work in a bad time.

Even if something goes wrong, I don't think it is only for microfinance. It is important to keep the customers in touch, keep the employees highly motivated, and try to enhance our ability to get the data in terms of the risk, having the dashboard, having the monitoring system, using as much system, data and analytics. All these we keep improving. At least based on the past history, we are able to perform better in all such events that you described. So you can hope that we'll be definitely doing better even in the future if such circumstances come in front of us.

Renish Bhuva: Got it, sir. And this is just the last data-keeping question. So of the total customer base, what percentage of the customer base will have more than INR1 Lakh outstanding at the industry level?

Udaya Kumar Hebbar: Industry level, I don't think, we have data as of what today. I think as of March, around 7.5% or 8% I believe. I don't have the answer with me right now. Maybe Nilesh will try to gather from the Micrometer and let you know.

Renish Bhuva: No, sir. Sorry. Let me rephrase it. Let's say, what percentage of our customer base will have total outstanding of INR1 Lakh, including other lenders?

Udaya Kumar Hebbar: Right now, in front of me, more than INR 50,000, that's about 43%. But the average is about INR 63,000 for customers with a vintage of more than six years. Only those guys will be able to get more than INR 1 Lakh. The average is about INR 63,000. And in our case, if there is something different, we need to look at it. As we explained earlier also, any customer with vintage more than four years has a very less risk in our case.

We even price them 1% lower than others. Any customer who has more than INR1 Lakh, he's always more than four years with us. So that kind of profile, we have, the vintage profile, which has a very, very big deterrent for us in terms of credit risk, actually.

Renish Bhuva: Got it, sir. This is very helpful, sir. Thank you, and best of luck, sir.

Udaya Kumar Hebbar: Thank you. Thank you so much.

Moderator: Thank you. We take the next question from the line of Shweta Daptardar, Elara Capital. Please go ahead.

Shweta Daptardar: Thank you, sir, for the opportunity and congratulations on a great set of numbers. So a couple of questions. One is, if we look at the current quarter, then there is a marginal drop in the IGL loan and a tad rise in home improvement and retail finance loans. And also, if you look at the industry level, individual loans have been on the rise. So how do you perceive this from the risk parameter matrix going forward?

Udaya Kumar Hebbar: No, I think it is not a big number because the overall number in the non-microfinance is just 1% or less actually. It may be a very very small variation to see though. I don't think, it's any significant what you call or you say, we cannot make anything out of that right now because of such a small portfolio in the non-microfinance book.

Shweta Daptardar: Okay. I will rephrase it in a different manner. So we have also alluded to the fact that individual loans will be slightly increasing in the portfolio. Sir, whether these individual loans are largely cross-sold or graduated from the existing customers or these will be coming from the newer portfolios and new to-credit customer base?

Udaya Kumar Hebbar: Yes, Ganesh?

Ganesh Narayanan: Okay. These individual unsecured loans, as we had guided earlier, even in the medium term, should hover in the range of 5%-7% of our portfolio and these are pre-selected graduated customers with certain credit behaviour with us and a certain vintage and certain types of profile that is chosen after assessment. So that is definitely a graduated book, and we believe this would also behave well as we move forward.

Udaya Kumar Hebbar: Yes. For your question about is there a new customer, it's completely existing retained customers, Shweta.

Shweta Daptardar: Okay. Noted, sir. Sir, second question, if I look at the borrower mix, so clearly, the borrower share from the home turf markets and the markets where we had a key presence, this is continuously falling. What is the kind of growth that we are seeing in the top four states of Karnataka, Maharashtra, Tamil Nadu and Madhya Pradesh, and what would that be in comparison with other few markets which are going for you? Is Karnataka or Maharashtra's growth now in single digits? And how are you perceiving penetration and growth in the existing home turf of markets?

Udaya Kumar Hebbar: So based on the base and the vintage of Karnataka, Maharashtra and Tamil Nadu, we believe that, this growth will be either the single digit or the low double-digit growth, whereas overall, we already said that, we will grow between 24% to 25%, which means northern geography, which is non-core market, will grow faster. We are witnessing that growth already. That is why that particular data about the new customer of 47% are coming from a different geography than the top three states, which is good from a diversification point of view.

Shweta Daptardar: Okay. Thank you, sir. I will come back in the queue.

Udaya Kumar Hebbar: Thank you.

Moderator: Thank you. We'll take the next question from the line of Mr. Abhishek Murarka from HSBC Bank. Please go ahead, sir.

Abhishek Murarka: Yes, thanks. Hi, Udaya and team. Many congratulations for the quarter. And congratulations to Ganesh for the new role as well. So, one question, sorry to sort of get back to the yield and cost question. You said that there's about 16% of the book, which is pre-April 2022. There would be some more part of the book, which would be the first half of last year, which was also at a lower yield. So cumulatively, how much yield benefit are you looking at from this re-pricing and over what period?

Udaya Kumar Hebbar: See, the 16% is pre-April, which was the pre-regulation portfolio. In the post-regulation portfolio, there is not much change actually. Basically after February 2023, we have not changed the prices at all. So, therefore, the majority of the portfolio will not have too much replacing actually. Replacing benefit will get only 16% and the additional will get a little insignificant, not very significant.

Abhishek Murarka: But Udaya, the Q1 FY23 and Q2 FY23, if I look at your presentation, it gives numbers of 20.3% and 20.8%, as a disbursement rate.

Udaya Kumar Hebbar: Yes, correct. Correct, I got your point. But this will take a longer time as we would not get into immediate re-pricing actually because of long-term loans. So, we are not re-pricing that unless they are maturing and re-lending, right?

Abhishek Murarka: Right.

Udaya Kumar Hebbar: We will not get the benefit immediately. That is why, I am telling that the benefit, that there is not significant for a yield point of view. Because it is not re-pricing based on a floating rate. These are all fixed rates, right?

Abhishek Murarka: Fixed rate, yes.

Udaya Kumar Hebbar: And then 90% of loans are more than two years. That is why.

Abhishek Murarka: Right. So incrementally, maybe 20 bps to 30 bps is the maximum we could get out of this on a blended basis.

Udaya Kumar Hebbar: But that also takes a longer time. I think, 16% will give about 25 bps to 30 bps. Correct. You're right. So that is what we said, your cost of borrowing might go up between 20 bps to 40 bps. There is a cushion of repricing which will take care.

Abhishek Murarka: Got it. And regarding cost, you also explained that some drawdown was left and you are borrowing long term. Can you give a little more detail about what exactly will lead to this 20 bps to 40 bps? Sorry, I couldn't follow in the opening comment.

Udaya Kumar Hebbar: We have announced that we have borrowed almost 39% of our borrowing in Q1 from foreign sources, which have a higher cost compared to domestic borrowing, but the actual borrowing happened only at the end of the quarter. The real impact of that borrowing will come in Q2. And on top of that, we are also estimating to borrow some more international borrowing which is in the pipeline and is already committed. Plus, we would raise Public NCD also. So, we all will have a higher cost compared to the other borrowing cost. Therefore, it might be impacting about 20 bps to 40 bps of the cost of borrowing. Hope I clarified.

Abhishek Murarka: Right. And the landed cost of this foreign borrowing would be how much? Post hedging?

Udaya Kumar Hebbar: Between about 9.5% to 10% depending on the country and geography and then the type of lender.

Abhishek Murarka: Got it.

Udaya Kumar Hebbar: Some of them are close to 10% actually.

Abhishek Murarka: If I put these two things together Udaya, so incrementally may be 20 bps, 25 bps, 30 bps of yield increase and at the most 20 bps to 40 bps of cost increase. So broadly your NIM should be stable, maybe plus or minus 10 bps to 15 bps. But you're still maintaining a 12% to 12.2% NIM guidance. So don't you think, I mean, what is going to bring it down?

Udaya Kumar Hebbar: You need to look at the one more, two more quarters because there is a base effect, there is a capital adequacy effect. There are multiple things we need to see. We will not be able to take a decision based on the one-quarter result, Abhishek. That is what we said. We will take a decision after one or two quarters based on the actual, how it moves in the next two quarters.

Abhishek Murarka: Got it. Thanks. And just a second question would be on this retail…

Moderator: Sorry to interrupt you, sir. May we request you join the question queue, please? We take the next question from the line of Mr. Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: First of all, congratulations to your team on a good quarter. And congratulations, Ganesh sir. Very, very good to see his appointment this elevation to the CEO role comes true. Sir, I mean, I don't have any questions on this quarter, but what I really wanted to understand is, given that we now have state elections coming up later in this calendar year, and then next year when we are heading to general elections, obviously that noise around elections, the potential of any loan waiver announcements, right, might come into the picture, might kind of be the narrative in the coming quarters.

So I mean, will it be wrong to claim that given that loan waivers when they were announced in Assam and subsequently, I remember advertorials from the government requesting citizens that if they are capable, not to take or opt for those schemes or take those loan waivers. And given that, I mean, the recent announcement that we had from the court in Telangana and Andhra Pradesh, wouldn't it be wrong to assume that at least the magnitude and frequency of such loan waivers from political parties will at least decline going forward, even if we cannot rule out that as a risk going forward?

Udaya Kumar Hebbar: I think Abhijit, we are on the same page, with what you are describing. It's such a good thing, actually, you know. Even in the last decade or so, elections never impacted microfinance significantly anywhere. There are even earlier, the Madhya Pradesh government or Karnataka government or Chhattisgarh government, announced loan waivers. But the customers, by and large, know that their loans are not getting waived.

And also, there's a significant awareness on the political side about the capital creation that microfinance is bringing to the rural, which normally government cannot do directly. Therefore, there's great support from every side, whether it's the administration, there's Finance Minister or the regulator. And you can see all the sides, there's a lot of support for microfinance. Even they would call us for suggestions when the finance bill is worked. The way the government supported while there was COVID, the liquidity, the moratorium, or many things they supported the sector to ensure that sector should grow, sector to stabilize.

And even in the case of COVID, the two years is a great ground if the politicians wanted to create any problem, where we did not see any issues anywhere in the country. Assam is a different issue that can be discussed separately because it is not the outcome of any election, this is the outcome of many different events over three years to four years including COVID, CAA protest, student agitation, the election and the government announcement. There are three, four events in the three, four years' time. Basically, to solve the issue of microfinance, they had to come up with a solution, which was effectively solved. It's a great example of how government and the institutions together can resolve the issue.

Looking at all these things in the last three years, four years, I think, there's a lesser impact because of the elections or such events. There's great support from the entire system everywhere. We don't expect any issues in the election year. It's always every five years there is a national election. Every year there will be multiple state elections. And we have been dealing with that carefully.

So maybe during the election period, one or two months, there may be muted growth because of the regulations around. But for that, we don't see any significant impact because of these elections around.

Abhijit Tibrewal: Thank you, sir. And just one last question here.

Moderator: Sorry to interrupt you, sir. May we request you join the question queue, please? Thank you. We take the next question from the line of Mr. Sameer Bhise from JM Financial. Please go ahead, sir.

Sameer Bhise: Yes, hi. Thanks for the opportunity and congrats on a strong set of numbers. Congrats to Ganesh as well. Just a quick question, Udaya, on some thoughts on creating management overlay as we continue to navigate the good period in the sector. Some thoughts would be helpful.

Udaya Kumar Hebbar: Sameer, if you look at our way of ECL, there is a huge or very significant inbuilt overlay. It's not that because if you look at our GNPA which is about 0.89% whereas provision is about 1.59%, you know, at a 90 days basis, which means compared to IRAC. So, there's a huge overlay already there.

And again, we recognize Stage 2 as a 15-day DPD. This means any event we are already there recognizing the requirement and that 60 days we recognize as Stage 3. Therefore, there is an inbuilt layer and there is no such accounting principle that allows us to create a different overlay when there is no specific event around us. I think, there is sufficient overlay inbuilt and we always have a habit of only recognizing the risks which have been observed, we have all observed over the last couple of years. We have sufficient cushion instead of any specific overlay here.

Sameer Bhise: Fair enough. So it's okay to assume that the credit cost run rate could be around the current levels, is that a fair conclusion?

Udaya Kumar Hebbar: Excuse me, can you repeat, please, Sameer? Sorry.

Sameer Bhise: Is it fair to assume that the credit cost run rate would be around current levels?

Udaya Kumar Hebbar: It should be, because we guided the credit cost between 1.6% to 1.8%. Definitely, it's within that range. I think we'll be able to meet that guidance.

Sameer Bhise: Great. That is all from my side. Thank you and all the best.

Udaya Kumar Hebbar: Thank you, thank you, Sameer.

Moderator: Thank you, sir. We take the next question from the line of Mr. Nidhesh from Investec. Please go ahead, sir.

Nidhesh Jain: Thanks for the opportunity. Sir, what are the plans to scale our operations in Andhra Pradesh and Telangana, these two states which have opened up? Have we started opening branches there already?

Udaya Kumar Hebbar: We would want to watch it there in both states because administratively, we need to see the alignment of the administration on microfinance because, for at least 10 years, 11 years, or 12 years, the administration is tuned to not to accept the microfinance there. Therefore, we are watching that. Maybe we will be opening a few branches and test it, how it works, and then take the expansion later actually. We will not be in a hurry to go and start operations in Andhra Pradesh and Telangana. We'll be watchful there.

Nidhesh Jain: Sure sir. And secondly, how is the asset quality experience in the individual unsecured loans that we are scaling in the group format?

Udaya Kumar Hebbar: It's absolutely great. It's within our expectations, and the portfolio is behaving very well.

Nidhesh Jain: Sure. And lastly, given that the operating leverage has been playing out quite beautifully, so any plans to pass on the benefit to customers? The current ROA and ROEs are very good, but any plans to pass it on to customers to give them the benefit of the operating leverage?

Udaya Kumar Hebbar: If you look, after February, we have not changed the price at all. Even now, again for next quarter, we are not changing the price. We are retaining the same pricing for customers. We are not increasing any price. And already we are the lowest-priced microfinance in this segment. And I think we'll continue to ensure that the customer gets the best from our side.

Nidhesh Jain: Sure, sir. Thank you, sir. Thank you.

Udaya Kumar Hebbar: Thank you so much.

Moderator: Thank you, sir. We take the next question from the line of Sagar Shah from Philip Capital. Please go ahead.

Sagar Shah: Good evening, sir. Thank you so much for the opportunity and first of all congratulations to the entire team for a solid set of numbers yet again. My first question was related to our AUM actually. We had around a sequential growth of around 4% I wanted to understand that obviously, sorry, for reiterating again, this point was already addressed before. But I wanted to gain more knowledge and depth that sequentially we grew by only 4% and it was below my estimates actually. Was this just because of Q1 being a seasonally weak quarter before or is it now that the competition is actually hurting us? Can you specify a reason for slow growth?

Udaya Kumar Hebbar: No. I think a sequential growth of a portfolio growth is on the base of the 18% growth we had in the last quarter actually. So it is still good. And I think you need to compare the Q1 with the Q1 of FY23 other than Q4 FY23 to Q1 FY24 actually. If you see Y-o-Y, the metrics are completely different and positive. We don't see any.

Sagar Shah: Yes, sir. Y-o-Y, completely agree sir that you compare Y-o-Y numbers it was a strong quarter but last Q1 actually was a different situation and a scenario altogether when the new regulation came into place we had to de-grow actually for one of the quarters. Is it safe to assume that in the next three quarters, we will see stronger growth than in Q1?

Udaya Kumar Hebbar: See, next three quarters maybe. But then if you see compare the last year to this year, you said clearly, the Q1 last year was lower because of the regulatory implementation of what we did in the first two months and from July onwards, it's started growing. Whereas the growth in the last year, maximum came in the last two quarters, Q3 and Q4. That is more of a higher base exhibit. Against the higher base, the first quarter is showing a little lower. I think at this point in time, we believe that we will continue to grow between 24% - 25%. And we'll again review after one to two quarters, to see how this will change.

Sagar Shah: This similar growth will be contributed and will carry forward the number that's outside Maharashtra, Karnataka and Tamil Nadu, actually. Which states actually are you getting traction in, obviously, Madhya Pradesh is the fourth most important state for your portfolio comprising almost 8%. But outside of these three states, how is the demand or how are you planning out actually?

Udaya Kumar Hebbar: So demand and supply by and large even everywhere, but the higher growth is coming from the new geographies because the older geographies are at a higher base, and the vintage. The growth is lesser compared to the growth in the newer state like Gujarat, Rajasthan, Uttar Pradesh, Bihar, and Jharkhand which gives the higher growth, whereas Karnataka, Maharashtra, Tamil Nadu and Madhya Pradesh will give the lower growth.

Sagar Shah: Okay. Sure. Now, my last question is related to asset quality. You have already stated that credit costs will remain at these levels. Say, obviously, keep the management overlay at these levels.

Now, obviously, our asset quality has actually once again improved in Q1. And that has been commendable. Your PAR 0 has come down to almost 0.7%. So just my one suggestion, maybe from one from my end, that why don't we actually create some extra provisions maybe for any, you can say, although we are holding an ECL provision of 1.59%, but why don't we create some extra contingency or a management overlay provision, so that maybe unforeseen event in the next general election or anything comes up, we can be at least secured by that. Your thoughts on that, sir?

Udaya Kumar Hebbar: Sagar, I think I have already answered this question earlier. We said clearly that we are already indirectly holding the additional layer of management overlay within our ECL system, which I explained already to an earlier participant.

Sagar Shah: Okay, got it. Thank you so much.

Udaya Kumar Hebbar: Thank you.

Moderator: Thank you, sir. We take the next question from the line of Mr. Rajiv Mehta from YES Securities. Please go ahead, sir.

Rajiv Mehta: Many congratulations on solid performance and congratulations to Ganesh also for his elevation as CEO. Sir, you know, the question and clarification I seek is on, whether a promoter is looking at pairing for the stake in the near term. I'm checking just in the near term. And when would we likely raise capital since the growth is running ahead of expectations?

Udaya Kumar Hebbar: I think in my opening remarks, I clearly said about the promoter's stake. What is the objective and it's already largely achieved what we have requested from the promoter on support to increase the investor base and increase the float. Largely, we have achieved that objective.

And the second part is, I think, again, we said clearly earlier that at least for the next seven to eight quarters, we don't see any capital raise because you can see that's a healthy capital getting accrued and then we have sufficient cushions for growth for next two years. We don't estimate any capital raise for the next two quarters, Rajiv. Sorry, next two years.

Rajiv Mehta: Got it. Great. Thank you so much and best of luck.

Udaya Kumar Hebbar: Thank you.

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

Piran Engineer: Good evening, sir, and congrats on the quarter. Just wanted to get an update on, the share of our unique customers. We usually used to have around 40%-45%, but with how the industry has grown over the last couple of years, what would that number be today for us?

Udaya Kumar Hebbar: It is slightly reduced actually, because as we grow in the newer geography, as we grow in the existing geography, we are able to target more customers who might be customers of other MFI, eventually moving us as a unique customer. Therefore, some 40% actually come down by 5% to 6% at this point in time. But what we observed is, over a 12-month time, they are coming to us as a completely moving out of other MFIs and coming to us as a full unique customer. I think as the competition increases, this type of unique customer number will keep changing.

Piran Engineer: Yes. And how many will have more than one lender? Like you and one more lender, I meant.

Udaya Kumar Hebbar: About 35%. 32% to 35% more than one lender. Only one lender, sorry. More than one lender is about 20%.

Piran Engineer: Sorry 20%?

Udaya Kumar Hebbar: 20%. Sorry. 20% more than one lender, sorry, 34%, sorry.

Piran Engineer: So 34% of your customers have three lenders including you?

Udaya Kumar Hebbar: No. More than one lender, you said. So more than two lenders if you want it is 14%.

Piran Engineer: Okay. No, so it does not add up. It's more than one.

Udaya Kumar Hebbar: Unique is 34%. Unique-plus one is 32%. Unique-plus two is 20%. Then more than two is 14%. Total is 100%, right?

Piran Engineer: Yes. Okay. So Unique-plus three is 14%. Okay, got it. More than three is 14%. And sir, then which states have the highest share of unique customers? Like, you know, I'm just trying to think as to where is the white space which is not yet penetrated by microfinance in terms of geography.

Udaya Kumar Hebbar: Always, you know, our old geography where we have been established for more than many years, particularly Maharashtra, Karnataka and Tamil Nadu. So we always have a very high percentage of unique customers.

Piran Engineer: Okay, got it, sir. Thank you and all the very best.

Udaya Kumar Hebbar: Thank you so much, Piran.

Moderator: Thank you. We take the next question from the line of Mr. Ajit Kumar from Nomura. Please go ahead, sir.

Ajit Kumar: Thank you. Congrats on the great set of numbers. Just a few data-keeping questions. What would be the average disbursement ticket size in this quarter?

Udaya Kumar Hebbar: The average is about INR 44,000 - INR 45,000.

Ajit Kumar: Similar to last quarter, right?

Udaya Kumar Hebbar: Yes, its same. If you see outstanding per customer also, by and large, remains the same. There's no change.

Ajit Kumar: Okay. Thank you. And just last thing, any comment on borrower leverage, including all lenders would have data for four to five quarters now?

Udaya Kumar Hebbar: So borrower leveraging is defined by the regulator already. It's more of a leveraging. And rather than leveraging, more of FOIR, how much they're actually paying, their obligations, actually. So that's more important. While we can actually go up to 50% FOIR obligation, 75% of the borrowers have FOIR of less than 40% today.

Ajit Kumar: Okay. Thank you. And congratulations on your progressive good number. Thank you.

Udaya Kumar Hebbar: Thank you so much.

Moderator: Thank you. Ladies and gentlemen, that was the last question for the day. I would now like to hand the conference over to Mr. Shreepal Doshi from Equirus Securities for closing comments.

Shreepal Doshi: Thank you, Seema. And thank you to all the participants for being part of the call. We would like to thank the management of CreditAccess Grameen for giving us this opportunity to host the call. Thank you, everybody, and have a good weekend.

Udaya Kumar Hebbar: Thank you so much. And I'm passing on all your wishes to Ganesh here. So thank you very much and have a nice day.

Ganesh Narayanan: I'm also thanking all of you for your good wishes. Thank you so much.

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