"CreditAccess Grameen Limited Q2 FY24 Earnings Conference Call"

October 20, 2023

ANALYST: **MS. SHWETA DAPTARDAR – ELARA SECURITIES PRIVATE LIMITED**

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

Moderator: Ladies and gentlemen, good day and welcome to Conference Call to discuss CreditAccess Grameen Q2 FY2024 Earnings. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Shweta Daptardar from Elara Securities Private Limited. Thank you and over to you Madam!

Shweta Daptardar: Thank you Sagar. Good evening, everyone. On behalf of Elara Capital, we welcome you all to the earnings conference call of CreditAccess Grameen to discuss the Q2 FY2024 earnings performance. From the esteemed management today we have with us Mr. Udaya Kumar Hebbar, Managing Director; Mr. Ganesh Narayanan, Chief Executive Officer; Mr. Balakrishna Kamath, Chief Financial Officer; Mr. Nilesh Dalvi, SVP & Head Investor Relations. Without much further ado I now hand over the call to Mr. Hebbar for his opening comments post which we can open the floor for Q&A. Thank you and over to you Sir!

Udaya Kumar Hebbar: Thank you, Shweta. A warm welcome to everyone and a very happy Navaratri to you and your family. We thank you all for joining the conference call to discuss our second quarter and first half FY2024 financial performance. We have witnessed another healthy quarter reflecting strong growth momentum. We are confident of maintaining business traction in H2 FY2024 with all key foundations in place. The rural demand continues to remain strong supported by high entrepreneurship spirit.

Despite Q2 being a historically weaker quarter due to seasonality, we continued to witness robust growth in our borrower base in Q2 FY2024. We added 3.36 lakh new customers of which 40% came from outside the top 3 states. Overall, in H1 FY2024 we added a healthy 6.64 lakh new customers with an average monthly addition of over 1.1 lakh demonstrating customer-led growth across our operating markets. The customer base grew by 21.2% Y-o-Y and 4.1% Q-o-Q to 46.03 Lakh while the AUM grew by 36% Y-o-Y and 3.1% Q-o-Q to INR 22,488 Crore. Disbursements grew by 13.5% Y-o-Y in Q2 FY2024 to INR 4,966 Crore. We forayed into Andhra Pradesh and Telangana in line with our contiguous district-based approach. With this expansion, our presence is across 16 states and one union territory, the branch infrastructure stood at 1,877 spread across 364 districts with 51 new branches opened in this quarter.

Our interest income grew by 53.9% Y-o-Y and 7.4% Q-o-Q to INR 1,187 Crore. Our average and margin cost of borrowing for Q2 FY2024 stood at 9.8% and 9.6% respectively. The increase in the average cost of borrowing was primarily on account of the USD 100 million drawdown of social loan in June 2023 followed by INR 990 Crore public NCD in September 2023. We believe that our cost of borrowing would largely peak out at 9.8% to 9.9% as the incremental drawdown plan for the next two quarters is predominantly from domestic sources as we, by and large, achieved our foreign borrowing requirements.

Our NIMs stood at 13.1% for the second quarter as the increase in borrowing cost was offset by the increase in our portfolio yield. Further, NIM primarily benefited due to three factors: i) superior asset quality leading to minimal interest reversals. ii) strong control on the cost of borrowing and iii) the higher share of portfolio growth funded through internal accruals. It is important to note that we have delivered healthy NIMs while still being one of the lowest-cost lenders for our customers.

We successfully raised INR 990 Crore in September 2023 through the second tranche of our public NCD. The funds came at an average coupon rate of 9.3% which is 30 bps lower compared to our first tranche last year with an average tenure of three years. The share of public NCD now stands at 7.9% with the share of foreign borrowing standing at 18.4% and the share of long-term borrowing is around 70%. This has further strengthened our ALM position with an average maturity of assets at 19 months and an average maturity of liabilities at 25.2 months resulting in a positive mismatch of over six months. The robust liability strategy embossed by us has helped us to address liquidity, positive ALM, long-term funding and adequate diversification along with lower prices to our customers. While our pricing is one of the lowest in the market, we have been further able to retain our pricing which was last changed in February and we shall be maintaining our price during Q3 FY2024.

Our operating profitability continues to follow an upward trajectory with the net interest income growing by 49.6% Y-o-Y to INR 772 Crore. The cost-to-income ratio was 31.7% on the back of the improved income profile. PPOP grew at a healthy pace of 68.3% Y-o-Y to INR 563 Crore. The credit cost today at INR 96 Crore which was partially offset by INR 11.7 Crore of bad-debt recovery resulting in a net credit cost of 0.4% non-annualised in Q2 FY2024. By H1 FY2024 net credit cost stood at 0.7% non-annualised and our collection efficiency excluding arrears was steady at 98.7%. GNPA measured at 60 plus dpd further reduced to 0.77% compared to 0.89% in the last quarter whereas net NPA stood at only 0.24%. PAR 90 is at 0.6%. We continue our effort to maintain the best-in-class asset quality by various quality controls in place. PAT grew 98.1% Y-o-Y to INR 347 Crore resulting in ROA of 5.6% and ROE of 24.7%. Our H1 FY2024 ROA stood at 5.7% and ROE at 25.5%. Capital adequacy remains comfortable at 25% at the end of Q2 FY2024.

On the back of our operating performance during H1 FY2024, we are happy to provide you with revised guidance for FY2024. The key factors that have resulted in upward division are more balanced growth across all parameters, ii) improved total income profiles and profitability, iii) robust capital adequacies leading to a higher share of growth getting funded through internal accruals and iv) strong controls on cost of operations. We maintain our portfolio growth at 24%-25%. We expect the improvement of NIM to the range of 12.7% to 12.8%. The cost-to-income ratio will be in the range of 31%-33% while we maintain credit cost at 1.6% to 1.8%. We expect improved ROA and ROE in the range of 5.4% to 5.6% and 24% to 25% respectively. Thank you for your patient hearing. We look forward to answering your all queries during the question and answer session. Thank you.

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

Renish Bhuva: Hi Sir, congrats on a good set of numbers so just two questions from my side first is on the liability side now given our balance sheet size, which is now almost I think INR 25,000 Crore and we have been in a complete unsecured product business so how we are going to manage the liability side especially considering the size and a product nature?

Udaya Kumar Hebbar: You said two questions.

Renish Bhuva: Yes, so secondly from the borrower attrition side so just wanted to understand that in the last one year we have lost almost 0.5 million customer base despite being the leader in the sector. Our lending rate is still far lower than the competition so to whom we are losing this customer and if you can also share what are the primary reason for this attrition?

Udaya Kumar Hebbar: Thank you, Renish. The liability side is one of the key things we kept on working to strengthen which has been the strategy for the last many years. We have witnessed that this is going to be one of the primary requirement to expand our liabilities beyond domestic, beyond banks because the requirement keep increasing by at least 25% every year and then many banks will not be able to give that much money every year. We also want to build a very positive ALM so that we should not be vulnerable to any liquidity-tight kind of situation. Therefore, we have been planning to expand liability beyond banks and then beyond domestic territory to go to international also. In this process, we did a couple of things. One is going to the non-bank side which is BFI and then the international borrowings and what you call the conventional public NCD route. Our view is over a period of time our dependency on the bank should be within 50% and the rest 50% of the funding should be outside the bank and as much as possible outside the geography so that we have a continuous supply of funds with a longer maturity resulting into higher ALM, positive ALM as well as very strong diversification.

We are largely in the process today. Only 53% of our funding is from banks, close to 20% is from the international side which is a minimum 3 years all the way up to seven years, another 7% to 8% is from public NCD, about 11% is from non-bank DFIs and then about 7% from normal short-term DA or PTC kind of thing. Our liability strategy is going very strong and this strategy is important for us to grow in the future while maintaining a continuous positive ALM mismatch as we diversify our assets. For the second point of the question, I will request Ganesh to respond in terms of attrition.

Ganesh Narayanan: Attrition for us is rangebound currently around 13% so we have been around 13%-15%. Attrition happens because of a combination of a few reasons as we have stated earlier too. There are a certain number of customers who are moving up, there are a certain amount of customers whom we do not want to lend and there are a certain amount of customers who do not want any further borrowing. It is generally a combination of these three that comprises our attrition so I think it is on the right track.

Renish Bhuva: Got it. I was just trying to get a sense that given a leader like us losing customers does it signal let us say aggressive lending in the segment or is it the normal attrition rate?

Udaya Kumar Hebbar: So far, we have seen this as quite normal and then I think it is in the range of what we have been observing over the last 5-6 years. We are not seeing any new differences. We have started addressing this through our product lines by following our customers. Some of the pilots that we did last year and have now scaled it now are going to address one set of customers moving up to the next level of intuition or having requirements of a larger value. Then those who do not want to borrow or whom we do not want to lend anyway, we don't want to get into. Those who are going into NBFC kind of thing so probably we already started addressing that through our diversified differentiated non-microfinance range.

Renish Bhuva: Got it. Just the last question from my side on the revised guidance now I think we will be the first MFI company in the industry to say that we will be delivering 24%-25% ROE. Is it fine to assume that this will be let us say new steady state ROE or is let us say this ROE because of we might be getting some margin benefit as of now and which might not be there maybe a year down the line. How should one look at this revised guidance sir?

Udaya Kumar Hebbar: I think it should be at least in the medium term to long term it should be a steady state because our capital adequacy also will be within the same rangebound between 20% and 25%. We should be able to maintain such a steady state of RoE going forward.

Renish Bhuva: Got it. Let it move from my side Sir. Thank you and best of luck Sir.

Moderator: Thank you very much. The next question will be from the line of Ajit Kumar from Nomura. Please go ahead.

Ajit Kumar: Sir congratulations for a great set of numbers. The first question is on disbursement yield which has increased by another 10 basis points sequentially. Is there any plan or scope of increasing this further from here on?

Udaya Kumar Hebbar: Not really. I think we remarked already that our growth rate is quite comfortable and we are maintaining the same price to customers we may not be increasing the price to customers. By and large over 90% of our lending portfolio has been already repriced so there is not too much scope for increasing the yield.

Ajit Kumar: The second question is on the number of employees which has increased substantially in this quarter the increase is by roughly 1,800 and which is quite higher than the normal run rate and this is despite the fact that your number of branches has increased by usual roughly 50 branches every quarter so what is the reason for that and which function this hiring has happened?

Udaya Kumar Hebbar: No, actually last quarter it was low because lot of transfers and we have not tried it too much most of the time we are spending on completing the transition from Madura to CreditAccess Grameen. Now that everything settled, we started hiring back and it is a normal growth. That is why we said last time our cost of operations those are not the benchmark it will increase going forward because of the branch opening, hiring, tax expenditure, all those we actually told last time. You have to combine the first half year rather than one quarter.

Ajit Kumar: Sure thank you, sir.

Moderator: Thank you so much. The next question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Sir just two to three questions, first thing this insurance distribution income that is reported is much higher than in the past few quarters just wanted to understand are there any things which have got bumped up and kind of there in this quarter some income which were there for earlier quarters and in the previous quarter or is this now going to be a steady state run rate in insurance distribution income. If that is the case what has kind of led to this amount of quarterly insurance distribution?

Udaya Kumar Hebbar: We have been the corporate agent for many years. By regulation we used to get only a 5% commission till Q1 and now that IRDA has revised the pricing which allowed the insurers to give a higher commission which actually increased between 12% to 15% now. Therefore this will be a steady state revenue going forward so there is no bump I think about only about INR 8 Crore in this which is an insignificant part of the few on accrual. Otherwise, this should be steady state income going forward at least the medium range until and unless the regulator changes any fee cap or something, as of now we should be assuming that we should get this kind of income on a very steady state basis. I do not know anything second part to the question which I could not hear.

Abhijit Tibrewal: This is exactly what I was kind of trying to understand so out of this INR 50 Crore we have reported insurance distribution income you suggested INR 8 Crore was accrued from the first quarter.

Udaya Kumar Hebbar: No, actually only INR 30 Crore is the insurance income rather than the normal like FD interest or mutual fund interest all those things. INR 30 Crore is the additional insurance income which is going forward steady state income for the quarter.

Abhijit Tibrewal: Got it, the second question was again around margins so if I look at the first half performance in margins here around 13.1% while we guide for 12.7% to 12.8% like the revised guidance of the full year. So if we have to assume that given that you said to the prior participant that not much scope for any further increase in yield given that the cost of borrowings will increase from here what we have reported in this quarter in margins and income we should see some moderation in margins is that the right way to look at it?

Udaya Kumar Hebbar: First quarter income is actually kind of based on the basic and growth is lesser than the internal accruals so we use more capital and when you use the entire year you use the capital than when we use more borrowings also so that average NIM will come down. Therefore, the first quarter ROE is 25%, annualized growth is only about 16% right so obviously there will be a gap, when you complete the whole year you will use the borrowings and then the capital. Automatically NIM will change so therefore we guided the steady state NIM for the potential.

Abhijit Tibrewal: Got it. Sir just one last question did this quarter have any impact from floods in the last quarter some parts of the country that reported floods this quarter had any impact on floods in the last quarter and the related question going forward is that we are heading into some state elections are there any noise or impact that you seeing all collections from the upcoming elections?

Udaya Kumar Hebbar: Not really. I think we have not seen any such impacts and even if there is an impact if it is 15 days plus, then automatically we would have provided more than 50% as our PAR would have increased. No such impact so far we observed and we strongly believe that what we guided is sufficient from the credit cost point of view as we see including the second half of the year.

Abhijit Tibrewal: This is very useful and thank you and all the very best to you and your team.

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

Shreepal Doshi: Hi sir good evening and congrats on a good set of numbers. Sir my first question was when we are entering a new state in fact in the last couple of years we have entered newer states like Bihar, Uttar Pradesh, even Rajasthan, Gujarat so what is the kind of new-to-credit ratio that we are seeing because these are not our vintage states per se. I wanted to understand what is the kind of new-to-credit ratio that we are seeing in these states and also what is the thought process on ramping up our operations in Andhra Pradesh and Telangana.

Udaya Kumar Hebbar: I think we said already that we have entered Andhra Pradesh and Telangana through the contiguous district approach which has borders into Tamil Nadu or Karnataka or Maharashtra or Odisha. We opened eight branches in Andhra Pradesh and four branches in Telangana in the bordering districts. The first part of your question is that when we go to new geography there is less new to credit because probably we are entering a place where some people are already operating but still it will be in the range of 20%-25% kind of new to credit whereas in the existing states like Maharashtra, Karnataka or Chhattisgarh or Madhya Pradesh our new to credit is also 40% to 45%.

Shreepal Doshi: Sir the second question was like what is the thought process in the sense that like currently we have added eight branches in Andhra Pradesh and probably four branches in Telangana so from here on like how many more branches do we plan to add in these states say over the next 12 to 18 months time period is there thought process to sort of scale it up further?

Udaya Kumar Hebbar: As a policy, we do not look at the state-wise numbers instead we look at our district actually, how many of our districts around us where we have to operate, we evaluate. But yes, Telangana and Andhra Pradesh are new but still, we would go again the contiguous manner. Probably we will open a few more branches during this year or the first quarter of next year and then penetrate and move to the next districts. That is the way we operate. Maybe over a period of time, we penetrate the entire state it will take a couple of years for us so same like we still expanding in Bihar, expanding in Uttar Pradesh, expanding in Rajasthan, expanding in Gujarat, similarly we are operating here also, so we look at districts rather than the state when we are expanding.

Shreepal Doshi: Got it so the second question was on the non-microfinance segment that we aspire to sort of scale it up so how is the management bandwidth that we are planning to create over the next 12 months so that we are able to scale up that segment as well?

Ganesh Narayanan: From a management bandwidth perspective I think we are adequately staffed. We have adequate resources to take care of newer businesses in fact the newer businesses most of them are run through a separate vertical and we have a business head, we have an NCM so we will have all the manpower already in place. Apart from expansion and field staff, we do not see a requirement coming in for management for the new business.

Shreepal Doshi: Got it and sir one last question was with respect to recoveries so like we have taken the hit of COVID and we have written off some accounts so are we seeing any healthy recoveries lined up in the third quarter or in the fourth quarter like we have seen during this quarter as well but do you expect that there could be some healthy recoveries coming up in the second half?

Ganesh Narayanan: The stronger recovery from the COVID portfolio has almost been completed now and for the last few quarters we have seen a similar trend. It will be in the range of around INR 4-5 Crore a month and that keeps coming but as a broad guidance, we can always see around 10% to 15% of recovery coming from it every year.

Shreepal Doshi: Got it, sir. Thank you so much and good luck for the next quarter.

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

Nidhesh Jain: Thanks for the opportunity, Sir. So firstly on the new initiatives new business that they are scaling up if you can share some progress how has the traction been in this quarter?

Udaya Kumar Hebbar: As I said earlier, more time was spent last year on pilots and this year we started scaling up the two products which is particularly higher individual loans unsecured which are not more than

INR 2 Lakh per client which is actually growing very well. I think we should start presenting the numbers from the next quarter and also what you call LAP which is just progressing very well already. The two-wheeler is still in the nascent stage and the home loan we are planning to pilot this year and the last gold loan we are not very sure still so it was still in INR 2-3 Crore of portfolio which we are continuing your pilot to evaluate and see whether it is the right product we should continue or not, so other products are getting scaled up, probably from next quarter on we will start presenting the non-microfinance initiatives also.

Nidhesh Jain: Sure sir, and secondly from the ROE point of view reporting 24%-25% ROE how do you think about creating buffers for future specialized passing on the benefit to the customer or we are okay with 24%-25% ROE spending beyond that also with operating leverage?

Udaya Kumar Hebbar: No, there are two things. The passing on can happen through the operating efficiency, and the cost of borrowing so many of the areas are there. I think as we said we are seeing the cost of borrowing getting into peak mode, in fact, we start moving down, then stable and then moving down. Opex again today at 4.7% is actually basically including the investment what you are working with the retail and all these new initiatives also so that also there will be some leverage, this all will get passed on to customer actually going forward so that we will be trying to keep the return intact as far as possible and as the capital consumption is becoming more and more then we will be able to maintain this easily without any difficulty.

Nidhesh Jain: With this sort of internal accrual, we should not require capital in the future because our growth is also around 25%, book value growth will be higher than 25% so ideally, we should not require capital.

Udaya Kumar Hebbar: At least for the near future we are not looking for any capital.

Nidhesh Jain: Sure sir. That is it from my side. Thank you so much.

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

Abhishek Murarka: Hi Udaya and team congratulations on the quarter. Sir, my question was again on the new products can you share what was the disbursement in those products in the last quarter and let us say in a year’s time what percentage of AUM are you targeting to get to in terms of mix?

Udaya Kumar Hebbar: Currently it is about 1.5% of the portfolio and the disbursement last quarter was INR 160-170 Crore. It is behaving quite well.

Abhishek Murarka: Let us say by the end of next year what percentage do you think will be contributed by this portfolio you have any target in mind or any threshold?

Udaya Kumar Hebbar: I think we spelled out clearly in our analyst meeting we said that in the four-five years, we should be actually achieving about 12% to 15% which means around INR 6,000 to 7,000 Crore is our target to reach by the next four-five years' time.

Abhishek Murarka: Got it. Thank you so much.

Moderator: Thank you. The next question is from the line of Arvind R from Sundaram Alternates. Please go ahead.

Arvind R: Hi Sir thank you so much for the opportunity. I have a few questions on my mind like this might have been answered but the average disbursement rate is 1% higher than the portfolio yield and like cost of borrowing is also lower than the marginal cost of borrowing is 25% slower than the cost of borrowing. Does it mean that like the NIMs can improve further from here more the next several quarters that is my first question.

Udaya Kumar Hebbar: NIM may not go up further because most of the portfolio is replaced already and the marginal cost is not a reflection you have to look at the weighted average cost which is the real cost getting into overall financial metrics. The marginal cost is only the cost of the borrowing for that quarter so next quarter we got to borrow at a little higher cost the marginal cost has suddenly gone up, so therefore weighted average cost is the one we have to look at. We believe it will go by another 10-20 bps maximum and what you call portfolio yield may not change too much because the average portfolio does not change too much. We will use more borrowings in the next two quarters because normally 60%-65% of the growth will come from the second half which means we start using the borrowed money in the next two quarters whereas we used more capital in these two quarters. Given these two-three combinations, we believe NIMs will come down a lesser than the current.

Arvind R: Understood Sir. My other question would be about the number of branches if I could see like Maharashtra like I have all similar branches to Karnataka or like even slightly higher but the portfolio is like almost only just half of the portfolio in size in Karnataka is there any target like reaching the current levels of Karnataka book in Tamil Nadu and Maharashtra like in next 3 years or something like that?

Udaya Kumar Hebbar: Karnataka has quite old branches, quite matured branches and then we continue to grow the same branch that is quite higher. Whereas as we go more and more to the newer geography that is Maharashtra was next and then the Madhya Pradesh we keep on doing all this just like that. Instead of based on the vintage the branch will grow so eventually most of them will beat that level. Tamil Nadu specifically because many Madura branches became a part of the Grameen in this financial year where average outstanding are quite lower the average looks a little lower. The whole idea of the Madura acquisition was to grow there. Obviously, we will grow there so eventually all these will come into a similar range of productivity.

Arvind R: Sure sir. Thank you so much.

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

Kashyap Javeri: Thank you so much sir and congratulations for a good set of numbers. I have only one question which is on the disbursement side. Quarter-on-quarter disbursement is about 4% and YoY about 18% which itself looks like slower growth as you said for these new initiatives of about INR 150 Crore this number would have been down by about another 3% so for the full year what is our view on the disbursement growth as well as why it would be a slow number this quarter?

Udaya Kumar Hebbar: So these are not lower actually. If you see first-half growth we have done better than any other year actually. We have to look at what is the normal natural first-half growth and second-half growth and we also said that we are retaining the guidance we said that our guidance is 24%-25% annualized growth which we have returned that guidance. I think that guidance is intact. Normally in the third quarter and fourth quarter, the higher disbursement will happen therefore I do not see any reason to worry about the potential growth guidance.

Kashyap Javeri: Sure Sir. Thank you so much.

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

Rajiv Mehta: Sir congratulations on a very good set of numbers, my question is on credit cost guidance so when I look at you have maintained your credit cost guidance but when I look at the collection efficiency excluding arrears it is at 98.7% on the whole portfolio, your PAR 30 number is also small, your buckets are even smaller and you are carrying good provisions on stage two and stage three assets. Could we have not lowered the credit cost guidance or are you expecting that collection efficiency may not hold up?

Udaya Kumar Hebbar: Credit cost is not just the PAR, our provisions are higher than others. We provide 60 days for NPA and 15 days for stage two. The credit cost will be higher than the NPA figure. Only the first quarter was a blip which was much better but that is not the comparison. Q2 FY24 is the comparison. If you see Q2 our cost was about 0.4% annualized to 1.6%. I think we are quite in line with our guidance.

Rajiv Mehta: From the collection efficiency being reported on the whole portfolio ex of arrears being 98.7% was implying that the flows going into stage two and stage three are also less and which is why the requirement?

Udaya Kumar Hebbar: It is because of the policy. If you go by the iGAAP methodology our requirement of provision may be half of what we are doing whereas we are doing more right so automatically the cost will go up. We have a GNPA of 0.77% and 1.60% of provisions.

Rajiv Mehta: Correct and sir on the NIM guidance again just a clarification because when I look at the first half NIM it is 13.1% you have given a full year NIM guidance of 12.7%-12.8% but again when I look at your incremental disbursement yield it is 1% higher than the portfolio yield so that gain will come and unless the cost of fund goes up significantly and I understand the leverage part that you will grow much higher in the second half but is it just a leverage or something else also are you building some question for any other reason as well?

Udaya Kumar Hebbar: Look at last quarter, we and everybody were revising. If you look, our yield has gone up but ROA has come down. So NIM has slightly gone up but the ROA has come. There is more linkage between the leverage and the operating cost. Even if operating costs increase by 20 bps that has an impact or huge ramifications. Even if there is a 10 bps increase there is ramification because of the growth we are talking about opening many more branches also in the next two quarters. We have opened only 90 branches where the plan is to open 180-190 branches and then usage of capital is another impact so all these three to four things, we have to look at together. We did that analysis and then came out with a stable potential NIM for the year.

Rajiv Mehta: Sir you have maintained your growth guidance between two quarters so do you see some risks in growing faster than 24%-25% because we have the capacity, we have been expanding in your markets and the cycle is also good, collections are also good, so is there any harm in growing slightly faster?

Udaya Kumar Hebbar: Not necessarily but we also believe that 24%-25% is good growth at the base of what we are operating. The newer market entry will actually give you expansion but the growth you will get only next year not the current year normally. We are preparing for expansion for next year by entering new markets, so I think 24%-25% is decent growth, you still need to do a lot for that, annual growth is only 16% we need to really grow almost about 30%-40% annualised growth for next second half to achieve this itself.

Rajiv Mehta: Got it Sir thank you so much for answering all my questions. Best of luck.

Udaya Kumar Hebbar: Maybe one more point I want to add is we are actually strengthening our operations also at this point of time. It is always good to strengthen our operation when the good time is going on right.

Rajiv Mehta: Yes sir. Thank you.

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

Shreepal Doshi: Hi sir thank you for again giving me an opportunity. I wanted to check like where we differentiate among the peers in the landscape on the opex upon AUM front wherein we are probably at 4.5%-4.6%. So on that front wanted to understand and so with that angle, I wanted to understand what is the attrition rate at the loan officer level and at the middle management level.

Udaya Kumar Hebbar: Our attrition rate is around 28% including loan officer and middle management together. If you ask only loan officer credit it is about another 5%-6% more and middle management or higher management may be about 5% less, an average of about 28%-29% which seems to be reasonable for us. Maybe it is less than the market, but we do not have an appropriate number of others with us. Similarly, customer attrition is quite low for us which is one of the reasons why our operating cost is better because growth is largely coming from the retained existing customers which comes as an advantage for a better operating matrix.

Shreepal Doshi: Right you said 13% to 15% is the attrition for the customers right?

Udaya Kumar Hebbar: I think we observed the industry around maybe north of 25%.

Shreepal Doshi: So customer attrition is north of 25% you said?

Udaya Kumar Hebbar: Yes, for the industry.

Shreepal Doshi: For the industry okay. Got it thank you so much and just one bit on the opex upon AUM there would not be any further improvement and we would want to maintain these levels right?

Udaya Kumar Hebbar: So, it is rangebound if you see it is always ranging between 4.5%-5.0%. Quarter-on-quarter we do not see and there would be some gaps but annually we saw it between 4.5%-4.75%, not more than that.

Shreepal Doshi: Got it, sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Omkar Kamtekar from Bonanza Portfolio. Please go ahead.

Omkar Kamtekar: Thank you for taking my question. Firstly, the end of it was previously answered but just to get a proper understanding even in the guidance we have said that NIMs have expanded because we have used internal accruals and own funds for growth so therefore in the near term I think we may not require any external funding so I think INR 990 Crore that we raised I think would be fair enough for the year.

Udaya Kumar Hebbar: We do not need capital, our book runs 75% by borrowing only, and we do not need capital that is what we said.

Omkar Kamtekar: Sure. Thank you for the clarification. I need growth guidance or maybe color from you in the GLP product mix segment the home improvement and the retail segment have shown good growth so the home improvement has almost doubled and retail finance has almost increased by 60% on a year-on-year basis, the growth has been more so ramped up since Q4, Q1 and Q2 so do we see this ramping up and also the average amount per loan is also increasing for both. Could we please give us an understanding of how much can go up to as a part of the entire portfolio and will this be margin accretive?

Udaya Kumar Hebbar: See Omkar these are the products we piloted last year scaling up this year. Last year INR 10 Crore and this year INR 20 Crore is 100% growth that is what the way it was in the initial stages so these all products were piloted last year and we are actually growing now and scaling it up therefore growth is definitely important and it should happen as I said earlier to somebody. I think Omkar we have a plan to grow this at least from the current 1% to 2% portfolio to almost 10% to 15% in the next 4 to 5 years. Therefore, there will be a ramp-up of these products continuously.

Omkar Kamtekar: Okay thank you and just a small clarification, want a review on the microfinance industry as a whole of a quick overview of what you feel the next two or three years would be for the MFI industry as a whole from your lends?

Udaya Kumar Hebbar: Our NIM is quite stable actually post regulation changes things are definitely good post-COVID. Also, I think the industry has been very resilient in terms of coming back to normalcy, customer segment what we operate are so very resilient so we believe the industry should actually move well with at least 25% CAGR growth for the next two to three years.

Omkar Kamtekar: Thank you very much.

Udaya Kumar Hebbar: That is potential to grow.

Moderator: Thank you. The next question is from the line of Arvind R from Sundaram Alternates. Please go ahead.

Arvind R: I just had one query non-JLG loans we are looking to grow is that margin accretive? Can you give me some guidance on what would be like the yields in those products?

Udaya Kumar Hebbar: These product yields are actually equal or more than group loans. Since we have individual loans we charge a little higher whereas in group loans we have a differential rate between high-risk, medium-risk and low-risk segments. Here we have a common pricing of over 22-23% leading to higher yields. Margin accrual is also higher because we are doing it only for the existing customers who are moving into the next level. Therefore, we do not have acquisition cost and gives an additional advantage in terms of margin.

Arvind R: I did see like for other banks and NBFCs even the sector data like loans which are like less than INR 50,000 ticket size started to see some signs of stress, is that the cause of worry for you like or do you see any issues in the ground not necessarily for CreditAccess but for the industry term?

Udaya Kumar Hebbar: It depends on what type of clients those are. If you want to go and give individual loans to a new-to-credit customer then probably that is a challenge. Our model is clear to the existing retained loyal customers who have been with us for at least three years and always repaid well with good credit history. I think there is very little comparison for this.

Arvind R: Thank you so much.

Moderator: Thank you so much. Ladies and gentlemen, we would take that as our last question. I now hand the conference over to Ms. Shweta Daptardar for closing comments. Please go ahead.

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

Udaya Kumar Hebbar: Thank you very much and then I think very, very happy Festival season for all of you. Thank you so much.

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