"CreditAccess Grameen Limited
Q3 FY24 Earnings Conference Call"
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Moderator: Ladies and gentlemen, good day, and welcome to the CreditAccess Grameen Q3 FY24 Earnings Conference Call. 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 the star and then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ajit Kumar from Nomura. Thank you, and over to you, sir.

Ajit Kumar: Thanks, Zico. Good evening, everyone. On behalf of Nomura, I welcome everyone to the Q3 FY24 Earnings Conference Call of CreditAccess Grameen. From the management team, we have with us today Mr. Udaya Kumar Hebbar, Managing Director; Mr. Ganesh Narayanan, Chief Executive Officer; Mr. Balakrishna Kamath, Chief Financial Officer; and Mr. Nilesh Dalvi, Senior Vice President and Head of Investor Relations.

We will start with the opening remarks and then open the floor for Q&A. I'll now hand over the call to MD sir for his opening remarks. Over to you, sir.

Udaya Kumar Hebbar: Good evening and wishing you all a prosperous New Year and Sankranti. We thank you all for joining the conference call to discuss our third quarter and nine months of financial year '24 performance.

This quarter holds a special significance in our 25 years of inclusive journey, as we redefined many possibilities and continue to display the benchmark standards of excellence in microfinance business. Our profitability milestone touched the new mark as we recorded a profit after tax of INR 1,049 Crore for 9 months FY24, way higher than the full year of FY23, which was INR 533 Crore. We successfully completed the core banking solution upgrade, enabling significant business scalability and making us future ready. We received a credit rating upgrade by CRISIL from A+/Positive to AA-/Stable, making us the highest-rated standalone microfinance company in India by three credit rating agencies. Further, we are honoured with renowned accolades such as Microfinance Organisation of the Year at the Global Inclusive Finance Summit 2023 and Best Small NBFC 2023, at the Mint BFSI Awards Summit.

The thrust of our growth story revolves around customer additions as we added 14.86 Lakh customers in the past 12 months, of which 44% came outside the top 3 states. The customer base grew by 19.2% Y-o-Y to 46.93 Lakh, while the AUM grew 31.5% Y-o-Y to INR 23,382 Crore at the end of Q3 FY24. Disbursements grew by 10.3% Y-o-Y in Q3 FY24 to INR 5,344 Crore. Business momentum was temporarily impacted for two to three weeks in November 23, as we completed the major core banking system upgrade and migration process. It subsequently returned to normalcy in December 23, witnessing a disbursement of INR 2,245 Crore and a new borrower addition of 1.2 Lakh during the month. We opened 17 new branches during the third quarter, taking the total branch count to 1,894 spread across 367 districts.

Our average and marginal cost of borrowing for Q3 FY24 stood at 9.8% and 9.7%, respectively. We believe that our cost of borrowing should remain stable going forward in the near term. We draw good comfort from our diversified liability profile with continued access to funds from domestic and international lenders, improved credit ratings, also a well-capitalized balance sheet to maintain sufficient liquidity and strong control on our borrowing cost.

The interest income grew by 45.6% Y-o-Y to INR 1,245 Crore. The net interest income grew by 41.6% Y-o-Y to INR 802 Crore. Net interest margin stood firm at 13.1%. Operating cost efficiency further improved with a cost-to-income ratio of 29.5% and opex to AUM at 4.4% for the quarter. PPOP stood strong at INR 602 Crore, growing by 58.6% Y-o-Y. The gross credit cost stood at INR 126 Crore, partially offset by INR 10.9 Crore of bad debt recovery resulting in a net credit cost of 0.5% for Q3 FY24. Our net credit cost during 9 months FY24 stands at 1.3%. Collection efficiency, excluding areas, stood at 98.3%. GNPA measured at 60 days DPD was at 0.97% compared to 0.77% in Q2 FY24, whereas net NPA was at 0.29% only. Our PAR 90-plus 0.75%. The PAT grew 63.8% Y-o-Y to INR 353 Crore resulting in ROA of 5.5% and ROE of 23.6%. Our nine months of FY24 ROE stood at 5.6% and ROE at 24.8%. Capital adequacy remained comfortable at 24.5% at the end of Q3 FY24.

I shall now briefly discuss the small increase in overall PAR and GNPA during Q3 FY24. As shown in Slide 7 in the investor presentation, the fresh PAR accretion during nine months of FY24 has been within the guided range. The PAR increase during Q3 FY24 was primarily driven by seasonality factors, slightly higher steady-state delinquencies outside Karnataka, and the temporary impact of floods in Tamil Nadu. The PAR in flood-impacted Tamil Nadu branches has been coming down as we continue to witness a strong recovery. The increase in GNPA during Q3 FY24 was on account of business-as-usual slippage and higher steady-state delinquencies outside Karnataka. The ECL provisioning rates both for standard and delinquent loans are higher in other states versus Karnataka. Hence, higher growth outside Karnataka will result in slightly higher ECL provisioning. However, this will be adequately compensated by higher loan prices in the other states.

I would like to inform you all that the company has reduced the lending rate by 50 bps for both the MFI business as well as retail finance business during December and January based on our board-approved pricing policy. The company reviews the lending rates every quarter, and the current rate cut has been on the back of consistent improvement in operating efficiency, stability in the cost of borrowing, and expectation to further remain stable over coming quarters. We expect to maintain guided NIM as the full impact of revised pricing on portfolio yield will be gradually realized over the coming 18 months to 20 months.

Our proactive strategy of diversifying our liability profile has been executed very well over the last six to eight quarters. As of December 23, our share of foreign borrowings stood at 21.5% and the bank borrowings at 50.4%. The share of long-term borrowing stood at 75%. We maintained a healthy positive ALM mismatch with the average maturity of assets at 18.7 months and the average maturity of liabilities at 24.4 months. We have always believed that the quality of lending business is equally determined by the quality of liability for achieving a sustainable growth path.

I would like to drive your attention to the major technology project that took place this quarter with minimal business impact. We successfully upgraded our core banking solution, which was implemented in 2015. This upgrade will lead to improved business scalability and meet increased business requirements, which shall have enhanced functional process flexibility and product customization leading to faster go-to-market. Our digital initiatives, improved decision-making, and risk management capabilities will enhance our responsiveness to evolving customer requirements. In our growth story, technology is just not an enabler, but a business partner and hence, this is a big step in that direction.

Lastly, we reiterate our guidance for the financial year. Thank you for all your valuable time. We look forward to answering all your queries during our Q&A session. Thank you very much.

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

Rajiv Mehta: Yes, hi sir. Congratulations on the good numbers. And thank you for taking my question. Firstly, sir, thank you for giving a very granular disclosure on asset quality in the PAR movement. My first question is, given that the PAR situation is fast normalizing in the impacted districts of Tamil Nadu, would it be right to presume that our collection efficiency, which had dipped, and credit costs which slightly spiked in Q3, should normalize or should come back to Q1, Q2 levels in Q4, if all the other reasons hold up?

Udaya Kumar Hebbar: See, Q1 and Q2 were a little much better than what we anticipated. But in Q4, we expect this to come back to normalcy, and we should be within our guided numbers Rajiv.

Rajiv Mehta: Okay. And sir, also, now that you have implemented the CBS upgrade, can you quantify the efficiency increase post this? Maybe in terms of business or terms disbursement run rate, for the same branches and same LOs, does the disbursement capacity go up by 5%, 10%, 15% more? Does it have any effect like that?

Udaya Kumar Hebbar: No, I think it is not just the disbursement. There are a lot of other factors involved, it involves the scalability for the future, it involves in digitalization of many of our future efforts in digital lending areas. And then also risk mitigation and controlled areas. It also includes the efficiency of centre management, group management, location management, and travel route management. So many different factors we baked into this upgrade. I think overall it will take a little more time, maybe two to three quarters to give a significant benefit to us. It will benefit in all areas and not just one I would say. It will help us to go to market faster, it will help us to improve our paperless processing or speed decision making, so many different areas, it works. So, disbursement goes up in the process itself.

Rajiv Mehta: Got it. And just a last thing on this lending rate, we have cut by 50 bps. So, I mean, you've kind of broadly explained. But still, I would want to ask you that we haven't seen any cost of funds reduction so far, and we are expecting only stabilization going ahead? And we are already the lowest-cost lender in microfinance. So, what prompted us to cut rates slightly early?

Udaya Kumar Hebbar: See, the pricing policy is determined by four factors. One is your credit cost, other is the operating cost, funding cost, and your capital cost. So, we review all four costs every quarter. So, we have seen that actually, we have a pricing policy initially based on the overall operating cost of around 5% because we presume that it will be for a longer term as the new RBI guidelines will make the make a little higher cost because of the various factors there.

But as we kept on reducing it, now we are in a stable situation. As you see our cost has come down by almost 50 bps. So automatically, it makes us pass on that benefit to customers because this is part of the pricing policy. It's not that only borrowing costs will change and will pass on. It's completely based on the existing policy, which needs to be reviewed regularly. Even tomorrow, say, credit cost will go up next quarter, for example, to 25 bps, then we will have to go back and see whether we have to increase the price. Or credit cost goes down by another 25 bps, so we have to go back and check. The policy clearly defines every quarter to review and recheck. So, we are going by that process Rajiv.

Rajiv Mehta: Got that. So basically, there was no competitive or growth angle in this decision-making?

Udaya Kumar Hebbar: No, no, no. Not specifically that. It's more of a policy and then we have to go by policy.

Rajiv Mehta: Okay, got it. Thank you so much and best of luck.

Udaya Kumar Hebbar: Thank you.

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

Abhijit Tibrewal: Thank you and good evening, everyone. Sir, just kind of circling back to the cut that we have done in the lending base, about 50 bps. I'm sure you would have followed that I mean, another NBFC shared yesterday that they have also cut their lending rates by 50 bps. So understandably, you have said in your opening remarks as well as in your presentations, why you did that and the pricing policy, which is in place. Just wanted to kind of reconfirm that. I mean, all the noise around RBI saying that the kind of net interest margins and eventually even ROAs that MFIs are making, there's not been any even soft communication from the RBI, right, which is prompting lenders to review their lending rates?

Udaya Kumar Hebbar: If an institution does not form the right policy and does not make the right disclosures in the policy, definitely RBI will keep harping and repeating the comments. So, we have the right pricing policy. We kept on reviewing the policy over the quarter. This movement is baked on our reviews. But the regulator will actually keep asking you if there's a big change in the pricing, if there's a big change in the overall cost to the customer, so they will always ask the industry to correspond and review the policies. I think that they are doing their job definitely. So, we are doing our responsible lending practices, we keep reviewing the operations. So, our passing on benefit is fully based on the pricing policy review.

Abhijit Tibrewal: Okay. Sir, my second question was on I mean, again asset quality. You have articulated the impact that was there from the Tamil Nadu floods. But what we have recently started hearing is that MFI players are kind of also looking at calibrating their business growth in a few states.

So, for you outside Karnataka, so non-Karnataka, non-Tamil Nadu states, are you seeing higher PAR in particular states where delinquencies are higher and you are maybe looking to calibrate your growth in some of those states if you can speak about a few states if at all?

Udaya Kumar Hebbar: So, there's no significant change in any state. But yes, overall, if you see about a 10 bps difference compared last quarter to this quarter in the non-Karnataka area. This is particularly coming from the Northern part of Gujarat and some parts of Rajasthan, where some kind of migration is going on there. We are always very careful with those belts. So, to that extent, we have seen little variation. However, we are not seeing any significant variation in any of our geographies.

Abhijit Tibrewal: And sir, just in the interest of time, I wanted to squeeze in one last question. This time around, opex, whether we look at opex to AUM or cost-income ratios have settled lower than where they used to be in the past, even lower than the last couple of quarters, I would say. So now given that you have been acknowledging that there is positive operating leverage that you are seeing, where on a steady-state basis can either of these opex to AUM or cost-to-income ratio settle in?

And sir, another question, you might remember noticing just maybe nitpicking, we have added a few branches, around 17 branches this quarter despite that about 250 to 300 decline is there in the number of loan officers that you've reported. Is this usual attrition or how to kind of explain that?

Udaya Kumar Hebbar: So, there are a few variations in loan officers at the quarter end that have nothing to do with the quarter end. It may be a very small variation. There will be some attrition. But we have higher employees last quarter if you see. We are planning to open more branches. Therefore, we are hiring more also. So, we don't have any shortage of employees in this area. There may be some loan officers, which are allocated to different branches who may be on training right now, therefore, it will not be in loan officers buckets right now. We have sufficient recruitment in place even for opening branches for next quarter also. That is your second question. And the first question, what is that actually?

Abhijit Tibrewal: Your opex.

Udaya Kumar Hebbar: Yes. For the quarter, it is low at 4.4%. But if you look at 9M FY24 it is 4.5%. So, we are looking at least the near term between 4.5% to 4.6% only. And then the cost to income between 31% to 32% kind of thing is what will be the trajected cost-to-income ratio we are expecting.

Abhijit Tibrewal: Got it. This is very useful. Thank you very much and all the very best to you.

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

Shweta Daptardar: Thank you, sir, for the opportunity. A couple of questions. If I look quarter-on-quarter Tamil Nadu portfolio, so while the loan book has definitely marginally sort of increased, but if you look at the number of borrowers, that has slightly come down. So, is it that we are slightly calibrating your, after the flood impact or the business has already normalized in the entire region?

Udaya Kumar Hebbar: Yes, I couldn't get your question.

Shweta Daptardar: Sir, if I look at quarter-on-quarter movement in the Tamil Nadu belt. Sir, if you look at the loan book, that has actually gone a tad higher on a sequential, but the number of borrowers has fallen?

Udaya Kumar Hebbar: Shweta, flood impact happened on 15 December. We have grown from 1st October to 15th December, right. So only four districts had some impact. Till then, both portfolio as well as borrowers have grown actually. I think we have not reduced any growth. That four districts, of course, will take some time to come back to normalcy. It's already working on that. In other parts we are growing, there is no problem there. The number of borrowers reduction is not a reduction actually, it's gone up only. Borrowers and portfolio both have gone up in Tamil Nadu.

Shweta Daptardar: Okay, got it. Sir, as far as the unique borrower count is concerned, what is the number today?

Udaya Kumar Hebbar: We are at about 33% to 34%.

Shweta Daptardar: So, sir, if I compare with the corresponding quarter last year, we were north of 40%. Is this the outcome of growing outside of home turf? Or is the trend that we'll continue to see going on for CREDAG?

Udaya Kumar Hebbar: Yes. I think if we have to competitively grow in this segment, we need to attract customers from other MFIs. If we attract customers from other MFIs, your unique count will come down over a period of time. So, I think it is no different than growing in all the areas and then competitively advancing. But the good part is, when the customers in the other MFI who join us, we are seeing in a year, almost 11% of them becoming unique customers to us. So, while joining obviously, there will be some other MFI, and we are seeing that kind of migration from MFI to us. I think it's a good part of our expansion trajectory.

Shweta Daptardar: Just a follow-up there on similar lines, the first cycle ticket sizes have also been increasing, right, for us?

Udaya Kumar Hebbar: No. If you look at the slide, for continuously less than three years bucket is the same. INR 40,000 plus for the last four quarters.

Shweta Daptardar: Okay. So that was always around 40,000-plus. It was never lower than that?

Udaya Kumar Hebbar: Correct. You are right.

Shweta Daptardar: Okay. Thank you. That's all from me.

Udaya Kumar Hebbar: Thank you.

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

Piran Engineer: Thanks for taking my questions. Congrats on the quarter. And I dialled in a bit late, so I apologize if this is repeated. Just firstly, our client addition of 90,000 was weaker than our usual run rate, right? Any particular thing to read into this?

Udaya Kumar Hebbar: I think you missed that, we grew. I mean that the impact was 2 to 3 weeks in November. If you read Slide 6, we mentioned that actually, there was a lesser disbursement and customer acquisition in November because of our core banking system upgrade and we came back in December. To some extent, there is a dip in the actual borrowers. Whereas customer acquisition is still quite high, 2.7 Lakh customers acquired in this quarter. This gets converted over a period of time.

Piran Engineer: But sir, I think one month worth of customer acquisition also if you count, it would have gone from 90,000 to 1,35,000, it's still lower than what it was last quarter.

Udaya Kumar Hebbar: There is a 1 Lakh difference because previous quarter, we acquired 3.7 Lakh customers. And this quarter, we acquired 2.7 Lakh. There's a 1 Lakh difference is there in the acquisition. So, the borrower growth is not just the acquisition. You are having release and, what we call, attrition also comes there. Attrition and write-off, both come in the quarter also. You need to look for a longer period.

We have actually mentioned specifically, the 12 months, how much we acquired, how much attritted, how much written-off, everything. So, therefore, I think in the quarter, based on this data, we cannot presume that the growth is low, right? We had a 19.5% customer growth in the 12 months' time.

Piran Engineer: Okay. So let me ask it in another way. For the full year, are we still confident of 25% growth?

Udaya Kumar Hebbar: Yes. We reiterated that.

Piran Engineer: Growth of 11% for the first 9 months?

Udaya Kumar Hebbar: All the guidance, we reiterate that we will be able to deliver.

Piran Engineer: Okay. Okay. Fair enough. Sir, secondly, just our opex is down Q-o-Q. Can you just remind us what happened there?

Udaya Kumar Hebbar: We've become more efficient. I mean if you see the trajectories, first quarter opex will go up, second quarter a little down, third quarter a little low, fourth quarter further down. These are normal trajectories in the microfinance business. But we are a little higher because there is one component about INR 5 Crore there is a reversal in the Q3, which is employee cost just pointed higher in the previous quarter. To that extent, this is a small aberration actually. Otherwise, it's in the normal steady-state number Piran.

Piran Engineer: Okay. Okay. Fair enough. Sir. And just last question. I don't need to harp too much on this. So, the 50-bps interest rate reduction that you have done, how would you think about revising your NIM guidance for next year? Now 1 quarter seems to not change, but for FY25?

Udaya Kumar Hebbar: No, no, it needs it takes almost 20 months to give you the impact of this. It won't happen in one or two quarters actually. 50-bps divided by 20 months, that's the impact. So, it won't impact anything majorly in any of the quarters. In the meantime, there will be changes in the quarter borrowing, we see the steady-state and there'll be change there also. So, we can keep checking that again and again, we don't see any major impact on our NIM guidance because of this rate cut.

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

Omkar Kamtekar: So, the first question is with respect to the core banking system upgrade that we have upgraded. So technically speaking, with this update, we will be effectively a bank at scale and technology. Would that be a fair assumption?

Udaya Kumar Hebbar: Absolutely, you're right.

Omkar Kamtekar: Okay. So, in effect, we are a MFI banking company. And with respect to that, then we are also planning to expand ourselves, our presence in other locations and the branch additions that we have made, we have added 17-odd branches in the quarter and over 100 branches in the 9 months. So incrementally, how are we looking to expand? Are we looking to expand in geographies that we are not present or we are further going deeper into the existing geographies? How is the branch addition going to look ahead?

Ganesh Narayanan: Okay. Thanks, Omkar. Most of our expansion has been in our newer geographies, right? So, when I say we are not entering new states, wherever we are in our 16 states, leaving our top three to four states, our expansion in branches would be significant in the other states. In the top three to four states, our expansion will only be by way of split branches because of the size of the branch.

Udaya Kumar Hebbar: Yes. When we expand in other states, it's always a district-based expansion, the contiguous districts only.

Omkar Kamtekar: Okay. So, what we do is we are tapping into the districts of the particular state. So, for example, if it is Kerala, so specific district that we have not covered, we enter the first time then we move out of the state if it is completely saturated. So that's the way it is?

Udaya Kumar Hebbar: Yes. Correct. Correct.

Omkar Kamtekar: Okay. And just a clarification and I would want your understanding on. So effectively, with our opex to AUM also coming down, staying lower, our cost to income is also near industry leading at 31%-odd. So, I would want to understand how are we able to sustain this. And this effectively becomes a cost leadership advantage for us. So can you please give us a colour as to how are we able to sustain? Is this sustainable for, say, two or three years?

Udaya Kumar Hebbar: We believe this is sustainable because we have been sustainable at less than 35% continuously so far because of the low operating costs, low borrowing costs as well as a better NIM what we have. I think we expect further improvement in efficiencies also. We strongly believe that we can remain between 31% to 32% or 33% of the cost-to-income ratio going forward.

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

Nidhesh Jain: So firstly, on asset quality, there is also a bit of an uptick in the PAR 30 number from 90 bps to 120 bps. So, what explains that?

Udaya Kumar Hebbar: No, that's the slight increase in other states, that is what we said. There's some seasonality factor normally in Q2 and Q3. To that extent, there's an increase in the PAR 30 but it is much equal to March 31 or Q1 FY24. We always believe that every Q2 or Q3, due to rain, due to holidays, due to festivals, sometimes there is an impact. To some extent, there will be an impact.

Nidhesh Jain: Sure, sir. Secondly, what is the customer acquisition number for the last quarter? This quarter, you have disclosed around 2 Lakh, but for the last quarter, what was the number?

Udaya Kumar Hebbar: Previous quarter it was 3.3 Lakh and 2.7 Lakh in Q3 FY24.

Nidhesh Jain: Okay. 3.3 Lakh has become 2.7 Lakh just because of the 2 or 3 weeks of delay.

Udaya Kumar Hebbar: Correct. So, November is a half month. Correct.

Nidhesh Jain: And sir, out of these 2.7 Lakh customers that we have acquired, how many are new to credit, new to the microfinance sector?

Udaya Kumar Hebbar: Almost 33% Nidhesh.

Nidhesh Jain: Okay. So that trend still remains, even in the new geographies and we are still able to…

Udaya Kumar Hebbar: Yes, correct.

Nidhesh Jain: Largely on the retail finance side, what share of the book which will be unsecured, which is individual loans to customers and what is a secured portfolio there?

Ganesh Narayanan: The total retail portion is around 2.1%. Of which I think the majority at this point will be the unsecured graduated loans. 80% is unsecured loans and the other 20% is your secured loans.

Nidhesh Jain: Okay sir, that’s s it from my side.

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

Abhishek Murarka: Good evening sir. Congratulations for the quarter again. So can you talk a little bit about the borrowing? So, you had been bringing down your bank borrowings for a while. And again, this quarter, we've seen a bit of an increase, especially in light of the fact that this is the quarter where probably there would have been an increase in the cost as well because of the RBI circular. And also, your marginal cost is now almost equal to your outstanding book cost, and it is inching up.

So how do you see that? Can you just talk a little bit about what's the policy and strategy here?

Udaya Kumar Hebbar: It's some contra data Abhishek. So marginal cost has come down. Bank borrowings also has come down from 55% to 50% compared to the previous quarter.

Abhishek Murarka: Actually, I think it has gone up, right? Sequentially, the absolute amount has gone up, I think?

Udaya Kumar Hebbar: Yes, the amount would have gone up, but the book has grown. The amount will go up, but the percentage of the bank borrowing came down in terms of overall liability. So, the value would have gone up because of the overall borrowing would have gone up, sorry actual number would have gone up. And then marginal cost also is stable from 9.6% to 9.7% so that's also stable. But the bank borrowing might go a little up in Q4 because we are planning to draw the maximum money from banks in this quarter. There are a lot of sanctions undrawn from the banks.

Normally for the first and second quarters, we venture for the other kinds of borrowings and the quarter three and quarter four normally borrowed from banks. Still our idea is always to keep it lower in terms of bank borrowing between 50% to 55%. Balance 45% will be diversified between the international, DFIs and the NCDs that's what we are doing. And we believe this will change by 5% for the next few years, more 45% to 50%, 50% to 55% kind of things.

Abhishek Murarka: Okay. And what would be the marginal cost of borrowing from banks in international and DFI today?

Udaya Kumar Hebbar: I will give you a rough number, marginal cost from a bank borrowing may be around 9.4% to 9.5%. International may be 9.8% to 9.9%. DFIs are also approximately 9.6% to 9.7%. And public deposit being public NCD also at 9.4%.

Abhishek Murarka: Okay. So, all of it is roughly around your outstanding cost?

Udaya Kumar Hebbar: Correct. That's why the average is stable around 9.8%.

Abhishek Murarka: Got it sir. Thank you that was my question and all the best. Thank you.

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

Omkar Kamtekar: Thank you for the follow-up. So, sir, firstly, I wanted to ask about the leverage. So currently, our ROE is close to 24% and the ROA is 5.5%. So, it implies a 4.4 times leverage. We are looking to maintain this kind of leverage or we will be looking at any equity raise or some ways that the leverage does not go high or are we looking to increase the leverage?

Udaya Kumar Hebbar: We philosophically always want to maintain at least 20% of capital. So currently, we are at 24.5%. So, we are not expecting to raise any capital for at least the next two to three years time.

Omkar Kamtekar: Okay. So, in that case, I think, the leverage would continue to increase. So, if we maintain this kind of ROAs, so the ROE would maybe further ramp up if that is the case?

Udaya Kumar Hebbar: May not be, may not be because what we are expecting the growth and the ROE may be almost equal. Therefore, this would largely remain in the same range bound.

Omkar Kamtekar: Okay. And lastly, with respect to the retail loans. So, in the product range suite that we have mentioned, what I have observed is the average per-loan amount of the retail product has increased. So, it has increased from 51.2 thousand in the previous quarter of the last year to 162.5 thousand in the current quarter. And I think on an overall basis, this will also pull the total borrowing per borrower, is this trend going to continue? Or are we looking to cap it at a certain level?

Ganesh Narayanan: You will continue to see an increase in the average outstanding retail finance because you are also building your LAP book where your average is over INR 5 Lakh. So as that book moves up, this will keep moving up.

Omkar Kamtekar: So, this will materially move higher. So, what is the maximum amount, I did not catch that. What is the amount, that you said, retail finance?

Ganesh Narayanan: In our loan against property, the average ticket size is a little over INR 5 Lakh. So as that book keeps building up, the average of retail finance will keep moving up.

Udaya Kumar Hebbar: Both individual loans as well as LAP are the two key retail finance products, both are higher than the microfinance average actually. So, the individual loan is in the range of INR 1.5 Lakh kind of average. Whereas a secured loan, which is LAP, is around INR 5.7 Lakh currently. So this portfolio will keep growing up, therefore, the retail finance average will go up eventually.

Omkar Kamtekar: Okay. And from the previous con call, what I remember, we are looking to increase this to approximately 12% to 15% of the total AUM was the last conversation that we had, are we looking to keep it at that? Are we improving that to higher levels of the total AUM going ahead?

Ganesh Narayanan: Yes. This 12% to 15% is a medium-term guidance that we have given. We stick to that and we will be range-bound there, yes.

Omkar Kamtekar: Okay. Medium term. Okay. And then the approximate. And just to clarify, on the current guidance of 25% loan growth, I think we'll be close to 2x of the AUM in three years' time, that's FY'27, so the total size of the book will be close to 8,000 to 7,000 of the new retail, new products. Would that be a fair assumption?

Udaya Kumar Hebbar: No, no, sorry. So, we said by FY27 - FY28 we would reach about 12% to 15%. So, by that time, would reach that. So, it's not three years. It's four to five years.

Omkar Kamtekar: Correct. Correct. Okay. Pardon me, sir. Okay. I understood that. So, by FY27 - FY28, we'll be there to, INR 6,000 to INR 7,000 Crore understood. Thank you.

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

Nidhesh: Thanks for the opportunity again. The attrition of the customer is almost 15% of the opening customer base is getting attritted. So, any strategy to reduce customer attrition? And what is the reason that we continue to see almost 15% of customers getting attritted in a year's time?

Udaya Kumar Hebbar: The 15% is a range-bound. Between 85% to 88% is our retention continuously. It's one of the best retention at this point in time in the industry probably. I think that the retail product, what we have piloted and launched now, is majorly to address this kind of customers who are graduating from microfinance who would expect better product, higher differentiated products. I think as we grow the retail finance, we will address the majority of the customers who are attritting because of the product gap with us. So that's solved.

But the customers who don't want to borrow or we don't want to lend them. To that extent, always 10% to 12% of customers will be there, and we may not want to lend them again. So that is a trend always. Almost 8% of customers we always attrite because we don't want to lend to them. About 4% to 5% are leaving because they didn't have a proper product with us. So, we addressed that factor right now. I think going forward, we will be able to retain that kind of customer. We may retain the attrition might eventually come back to about 10% to 12% from 15%.

Nidhesh: Sure, sure. Thank you, sir. That's it from my side.

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 for the opportunity. Congratulations on a great set of numbers despite some of the events during the quarter. I have two questions. One, if I look at your book in Madhya Pradesh, that's not been sort of growing for about four quarters, stagnant at about INR 1,450 Crore. Any particular reason why that's happening?

The second question is on overall ticket size now. If I look at, again, two states, Karnataka as well as Madhya Pradesh, ticket sizes are either stagnant or declining. On the overall ticket size, what's the view going forward?

Udaya Kumar Hebbar: So, in Madhya Pradesh specifically, during the year, we saw some vulnerability in some districts, particularly migration purely. But it is not that permanent. Probably we already started growing back there. So, we fixed some of the issues, whatever there. We are back into it. I think we will grow in Madhya Pradesh also.

Karnataka is always a growth of high single digit. We never wanted to grow very high in Karnataka. Our entire effort was to diversify the other states. Therefore, the focus is more on the newer states in terms of growth. Karnataka is more about retaining our clients and maintaining a high-quality portfolio.

Kashyap Javeri: And overall ticket size, let's say, Karnataka is about let's say INR 63,000, then you have Maharashtra and Tamil Nadu at INR 53,000 and INR 49,000 and then Madhya Pradesh and others at about INR 42,000 and INR 37,000. Overall, each of the states eventually can converge with Karnataka or Karnataka is different because of our longer-term presence there.

Udaya Kumar Hebbar: No, there are two or three factors. One is about the vintage of the clients, how long customers are with us and what type of vintage they are with us, so that determines the ticket size. Second is the income level. What you can give at the first cycle, second cycle, and third cycle based on the income of the client. In some states, we may not increase the ticket size at the higher level, even though the vintage is going up. It may not be as same compared to Karnataka, but probably number of customers will go up but not necessarily the same level of ticket size. So, it will evolve over a period of time.

For example, Tamil Nadu right now is INR 49,000 not because of the vintage it's because we merged the Madura, which used to be a very low ticket also. So that's why it's a little. That will grow up actually. Maharashtra is a stable state. So, it will remain at INR 50,000 to INR 55,000 average ticket size. So, each state will have its own different, different features. But largely, determined by the vintage, income of the client. So, these two are key differentiating or deciding factors.

Kashyap Javeri: Okay. Sure. That's it from my side, sir. Thank you so much and best of luck.

Udaya Kumar Hebbar: Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question of our question-and-answer session. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Udaya Kumar Hebbar: Thank you so much, everybody participating in the late evening. So, we'll catch up next quarter. All the best and have a nice day.

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