



“CreditAccess Grameen Limited  
Q1 FY25 Earnings Conference Call”

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**MODERATOR:** **MR. ABHIJIT TIBREWAL - MOTILAL OSWAL  
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**Moderator:** Ladies and gentlemen, good day, and welcome to the CreditAccess Grameen Q1 FY25 Earnings Conference Call.

As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Abhijit Tibrewal from Motilal Oswal Financial Services Limited. Thank you and over to you, sir.

**Abhijit Tibrewal:** Thank you, Sreejil. Welcome everyone to the CreditAccess Grameen Q1 FY25 Earnings Conference Call.

We have with us today from the senior management Mr. Udaya Kumar Hebbar - Managing Director; Mr. Ganesh Narayanan - Chief Executive Officer; Mr. Balakrishna Kamath - Chief Financial officer and Mr. Nilesh Dalvi - SVP & Head Investor Relations.

With this brief introduction, let me hand over the call to the Management for their opening remarks post which we will open up the floor for Q&A. Thank you and over to you, sir.

**Udaya Kumar Hebbar:** Thank you. Good evening to all and a warm welcome for joining the conference call to discuss our first quarter FY25 business performance.

Before we begin, I would encourage everyone to read our FY24 Integrated Annual Report themed 'Being Sustainable and Responsible' which is available on our website. This report highlights our initiatives aimed at sustaining robust cross-cycle business performance, promoting strong governance and best practices, conscious efforts to reduce our environmental footprint, and safeguarding the stakeholder's interest. As we reflect on the last quarter, it is evident that we navigated well though a seasonally moderate period for microfinance coupled with the general election process during a large part of the quarter. Despite facing challenges such as extreme heat waves across regions and operational limitations during general elections, we maintained consistent performance in our net interest margins, operating efficiency, and return ratios.

Our overall AUM grew by 20.6% YoY to INR 26,304 Crore. The GL book grew by 18.2% to INR 25,542 Crore as against our annual guidance of 20% while the RF book delivered a healthy growth to INR 762 Crore. The overall portfolio declined on a sequential basis, in line with our internal estimates, given the seasonally weaker business momentum in the first quarter coupled with the general elections. We had factored this in our annual guidance of 23% to 24% portfolio growth in FY25, estimating a lower growth of 20% in the Group Loan business as against 24.7%

growth in FY24. Therefore, we reiterate our annual growth guidance for FY25 and we do not see any downside risk to our growth guidance.

The disbursement stood modest at INR 4,476 Crore. We added 1.90 Lakh new customers in Q1 FY25 leading to 12.7% Y-o-Y and 1.3% Q-o-Q growth in the customer base to 49.84 Lakh. Our branch infrastructure stood at 1,976, spread across 388 districts at the end of June 2024 as we added 9 branches during the quarter.

The net interest income grew by 24.8% Y-o-Y to INR 953 Crore in line with the loan portfolio growth. Our portfolio yield at 21% continues to remain the lowest in the microfinance industry resonating with our belief in serving customers with responsible pricing. On the other hand, the cost of borrowing was also stable at 9.8% despite the tightening liquidity scenario in the banking system. We expect our cost of borrowing will be within the range of 9.8% to 9.9% for FY25 guided by a healthy mix of domestic and foreign borrowings along with maintaining a robust ALM position.

While we operate with an interest spread of 11.2%, our NIM for the quarter stood at 13.0% benefiting from our strong capital position on our balance sheet. The positive operating leverage generated due to the scale of our business coupled with an improved income profile, and controlled costs resulted in a cost-income ratio of 29.2%. PPOP grew by 30.4% Y-o-Y to INR 709 Crore.

Coming to the asset quality, we saw a transitory increase in delinquency trend during the first quarter due to i) low base impact on account of a 1.5% QoQ reduction in the loan portfolio, ii) extended impact of low rainfall during last year followed by a severe heat wave across several regions throughout the quarter, coupled with iii) operational limitations during general elections which impacted regular collections and follow-ups in the delinquent buckets considering the sensitivity of the elections with the borrower's profile. We have been anticipating a gradual increase in business-as-usual delinquencies over the past three quarters due to on-ground issues like temporary customer migrations, rising customer leverage trends, third-party loan utilization issues, and higher steady-state delinquencies outside Karnataka, and accordingly, we had budgeted higher credit cost for FY25 compared to the previous year. We however, expect the delinquency trend to stabilise in the coming quarter and credit cost within the guided range of 2.2% to 2.4% for the year. As you can see on Slide No. 6, we continue to witness sustained partial repayments in the PAR60 bucket with an improving repayment trend as you move forward. Additionally, we have taken adequate measures like tightening credit filters while onboarding new customers while extending new loan to existing customers limiting leverage while dispersing etc., and deploying senior and experienced field staff and business support teams to control the PAR trend in some pockets.

Despite the increase in delinquency during the quarter, our asset quality continues to remain strong with collection efficiency excluding arrears of 97.8% for Q1 FY25, PAR 90+ at 1.13%

GNPA of 1.46% measured at 60 plus DPD, and net NPA of 0.45%. The credit cost of INR 175 Crore during the first quarter compared to INR 153 Crore during Q4 FY24 reflects our early risk recognition and conservative provisioning policy. Our ECL provisioning stood at 2.29% which is 116 bps higher than our PAR 90 plus and 130 bps higher compared to IRAC provisioning norms. We have strengthened our ECL provisioning policy further by aligning the provisioning rates based on district-specific risk compared to state-specific risk earlier along with customer vintage. Our conservative approach of granular risk recognition and higher provisioning has historically positioned us to quickly navigate any potential asset quality cycle and capitalise on growth opportunities.

We plan to implement district-based loan pricing in Q2 FY25 leveraging the business rule engine that would help align the loan provisioning rates on a granular basis. Thus, by tailoring loan pricing strategies based on district specific factors, we not only aim to mitigate the potential risks but also optimise revenue generation, safeguarding our overall returns. Our gross credit cost stood at 2.7% for Q1FY25 while net credit cost stood at 2.6% which is slightly higher due to the transitory nature and base effect of Q1 as explained earlier.

Coming to the return profile, Q1FY25 PAT stood at INR 398 Crore resulting in ROA of 5.4% and ROE of 23.5% in line with our annual guidance. This is the 6th consecutive quarter where we have delivered ROA over 5% and ROE exceeding 20% resulting in sustainable profitability mirroring our strong cross-cycle performance. Looking ahead, we would like to reiterate our confidence in achieving our annual growth and profitability targets. Our strategic initiatives coupled with the resilient business model and dedicated team, position us well to mitigate the known risk effectively.

Lastly, before we open the forum for a question-and-answer session, I would like to highlight the guidelines implemented by the industry body, MFIN, earlier this month imposing a cap on microfinance limit to INR 2 Lakh, number of lenders to 4. The industry collectively has come forward to move towards a sustainable growth path given large credit advancing opportunities available through the microfinance channel.

We look forward to your insights and questions as we delve deep into our Q1 FY25 result and strategic outlook. Thank you.

**Moderator:** Thank you. We will now begin the question-and-answer session. The first question is from the line of Rajiv Mehta from YES Securities. Please go ahead.

**Rajiv Mehta:** I have a couple of questions, Sir, first question is, as we're defining this increase in delinquencies as temporary, have you already seen improvement in fresh PAR accretion in June and July or conversely if you can share whether there has been improvement in the collection efficiency of June and July so far?

**Udaya Kumar Hebbar:** June and July are still remaining stable at a little higher frequency only, but we believe that overall by Q2 FY25 we should improve. So, what I'm trying to explain to you is, in the 60 days what the general election time you had difficulty in managing the collections particularly going to the field, going to do a follow-up of delinquent customers, that bucket would have moved further whereas new PAR we are able to collect back or collect partially or moving backward. Therefore overall delinquent trend may remain the same but the new PAR ability to collect is much higher than the first 60 days.

**Rajiv Mehta:** And sir, you have mentioned about strengthening of the ECL provisioning policy in first quarter and you have aligned your provisioning rates on districts versus states earlier and also along with the customer vintage. But when I look at the ECL coverage on standard loans with the stage 1 loans, it remains the same. So, incrementally as the growth picks up in the remaining quarters, would this ECL coverage percentage increase because more and more growth will come from the newer geographies?

**Udaya Kumar Hebbar:** Correct. It's right. When we realigned, in all 3 buckets you could see variation. For example, you are seeing in the standard asset, it has come down by 2 bps whereas Stage 2 and Stage 3 have gone up by 1%. It is more of when we moved from a state level to a district level, we moved it to granularity. In some of the states, the actual numbers would have changed the coverage. For example, take the example of Maharashtra, which we decided as a high-risk state earlier. Now when we moved to district-wise, some districts moved to the medium district, and some districts moved to the low district. The customers also moved the same coverage buckets. So, therefore, there is a one-time aberration for a change based on moving from a state level to a granular level, and going forward this should actually remain the same or follow the past 36 month's trend, we get reevaluated every quarter.

**Rajiv Mehta:** And just lastly, we don't see any structural issues in any of the large markets like Bihar, Tamil Nadu, Karnataka, and Maharashtra. In terms of rejection rates increasing or in terms of unique borrower acquisition challenges in these metrics. Are we seeing any issues at all, because your guidance seems to suggest that things will come back normally in the coming quarters?

**Udaya Kumar Hebbar:** There could be some stabilization because of the new guardrails which were implemented. Overall if the total borrowing of any customer is more than INR 2 Lakh you will not be able to acquire the customer per new guardrails which is going to be common for the whole industry not just for CAGL. Our view is that we should not be impacted too much because we always have this policy with us. Therefore, we don't see any challenge because of this, but yes, there is a little increase in the rejection rates. But I think it will help us to acquire new customers to compensate that kind of rejection.

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

**Renish Bhuva:** Just two questions from my side. So, one on the PAR0 trend, I mean, if we exclude the Karnataka and Maharashtra which has been the best-performing state for us as well as I'm assuming for the industry wherein we have 50% of our book. Now, if I exclude these two states, then the rest of the states' PAR0 is actually I think 4%. So, it clearly suggests that there are some challenges across these states. Now of course this could be because of transitory in nature because of election, etc. But how one should sort of read this data? I mean, is this due to the overleveraging given the industry has been growing at an accelerated pace post COVID or is there any structural change in the customer behavior because we have been hearing a lot from the industry players that the center attendance is not sort of back to the pre COVID level and which of course tells us that the customer behavior has changed structurally. So, where do you see PAR0 settling down in the near term for us as well as for the industry?

**Udaya Kumar Hebbar:** So, PAR0 other than the core market was a little higher earlier also. That is why in our earlier call, we said that we have to increase our credit cost guidance as we continue to grow outside Karnataka. Therefore it actually moved up by about 60 bps to 70 bps compared to earlier in the first quarter. We have to see the next quarter or Q2, we feel it should stabilise from here but on a continuous sequential basis last 3 to 4 quarters we have seen an increase in the credit cost in the non-core markets. So, therefore we anticipated an increase in credit cost guidance last year for the year itself. Currently, we are seeing a little higher than what we anticipated in these cases but we believe it is transitory in nature in the first quarter and it should come down to a normal stable cost of what we anticipated about 3.5% outside these core markets.

**Renish Bhuva:** So, let me put it this way, sir. So, do you think this 3.5% in other markets is a steady state PAR zero one should think of going ahead?

**Udaya Kumar Hebbar:** Even then your PAR90 may be much lower. 4.1% is higher considering the aberration, different Q1, right? PAR 90 we should look at maybe 1% to 1.2%, maybe a stable PAR 90 for a non-core market. That is what reflects in our credit cost, what we build up for FY 2024-25.

**Renish Bhuva:** So, in a nutshell, is it fair to conclude that whatever we have been hearing in the newspaper or media articles about building up stress in the sector, on ground or maybe as per your assessment things will come back in Q2?

**Udaya Kumar Hebbar:** Should be. It should be stable in Q2 and you still have out to complete the journey what you had in Q1, right? So, actually, the fresh accrual should come down and on top of what you had already in the Q1.

**Renish Bhuva:** So, do June and July doesn't indicate those improvements?

**Udaya Kumar Hebbar:** The months of June and July are still stable. Our ability to collect back is better actually. So, the delinquent trend remains stable but ability to collect is better whereas in April and May, the delinquency was there, but our ability to recover was bad. The difference is that.

- Renish Bhuva:** So, basically, net flow forwards in June and July should be lower than April and May?
- Udaya Kumar Hebbar:** Absolutely. Look at Slide No. 6 where we said that in the 0 to 60-day bucket, the collection % is much higher almost close to 40% - 45% whereas the 60+ bucket collection is much lower because it was part of April-May.
- Renish Bhuva:** Just last thing on the on the retail loan side, of course now that book is at around INR 750 odd Crore. So, which product is driving this growth? Is this the individual loans that are driving this growth or others?
- Udaya Kumar Hebbar:** Individual is a larger portion because we started that as a first product, already it's a vintage product, more than 2 years now. The other products we started recently. Currently, 70%-75% is more of an individual business loan.
- Renish Bhuva:** And let's say the PAR trend or asset quality is similar to that of JLG or it is slightly worse than that?
- Udaya Kumar Hebbar:** It is much better than the JLG at this point in time because these are all cherry-picked, seasoned vintage customers.
- Ganesh Narayanan:** It's quite clear at the moment across all RF products, nothing significant to mention about.
- Renish Bhuva:** Ganesh sir, do we have any internal let's say cap in terms of to which to what percentage we will scale up this book?
- Udaya Kumar Hebbar:** So, we already said earlier by 2028, it we will reach up to 15% of our book.
- Renish Bhuva:** The individual loan, I think that was for the total retail asset?
- Udaya Kumar Hebbar:** Correct. See, it will all go by a different product starting from different points of time. For example, individual loan started 2 years back, then Loan Against Property (LAP), Two-wheeler and then we went to Affordable Housing Loan (AHL). Eventually, by 5 years' time we are looking at about 40% - 45% secured book in terms of LAP, AHL and Two-wheeler. LAP and AHL are long-term products whereas the individual loan is always 3 years product, less than that it will churn out. So, when you have a seasoning of the retail, you will see a 45% - 55% kind of secured and unsecured book.
- Renish Bhuva:** So, maybe if I were to just split it, 7.5% would be secured and 7.5% would be individual loans.
- Udaya Kumar Hebbar:** It will be a 7-8% kind of thing, correct. You're right. Because, the LAP book will not run down, right? It will only keep accruing whereas other book like they start running down over a period of time.

- Moderator:** Thank you. The next question is from the line of Kunal Shah from Citibank. Please go ahead.
- Kunal Shah:** So, firstly, in terms of the incremental delta of 70 odd basis points, maybe earlier you said like there is an increase, but any specific state which is leading to a higher delta ex of Karnataka and Maharashtra? So, any particular state wherein that increase of 1.7% to 2.5%, is it like spread across all of them or maybe we are seeing one or two states having relatively higher?
- Udaya Kumar Hebbar:** Other than Karnataka, we saw largely everywhere, but Karnataka, Maharashtra is actually standing good, even Madhya Pradesh standing good with less than 2.2% PAR0 whereas others have little higher which actually forms only 15% of our business. Particularly what we saw a little higher is Rajasthan, Kerala, a bit of Jharkhand, and some pockets of Tamil Nadu.
- Kunal Shah:** Rajasthan, Kerala, Jharkhand, and some pockets of Tamil Nadu?
- Udaya Kumar Hebbar:** Correct.
- Kunal Shah:** And secondly with respect to disbursement, so if you can just suggest in terms of the monthly run rate because maybe it's like less than INR 1500 Crore a month, so how would that have been maybe like April and May or slower and getting into June-July we are seeing the traction better because on year-on-year basis also there is a decline. So, I just want to look at it how it should actually pan out in the coming quarters?
- Udaya Kumar Hebbar:** Year-on-year dip is basically the first 2 months, if an election process, normally you have a lot of restrictions due to the code of conduct, cash handling, and number of customers joining together, all these issues related to the administration. Therefore, we anticipated lower disbursement in any case during the first quarter. But we would retain our annual guidance of growth and we believe our disbursement will continue to become normal maybe after 1 or 2 months because we still believe June, July, and August may be more of a calibrated growth because we have to see how the whole industry, across players it is playing. So, in one or two months or three months, we will be calibrated but in Q3 and Q4, we should be able to grow because normally in microfinance Q3 and Q4 are higher than this. Therefore, we still believe there is no risk of non-complying with the annual guidance.
- Kunal Shah:** Maybe July-August also we could see INR 1,500 Crore a month kind of disbursement run rate, not much?
- Udaya Kumar Hebbar:** Right, maybe between INR 1,500 to INR 2,000 Crore. It will be, you can calibrate it.
- Moderator:** Thank you. The next question is from the line of Shweta from Elara Capital. Please go ahead.
- Shweta:** Sir, two questions. One, while we have maintained portfolio yields over the past 3 to 4 quarters, now given the fact that we are going to implement district-based loan pricing in Q2. So, do we see any changes out there in the trends going forward on the yield front?



**Udaya Kumar Hebbar:** Should not be, even if it is there, it will be very small because when you move to granular there will be small ways like ECL which I had explained earlier, a small variation. This may have a small variation but we are not anticipating any significant variation here.

**Shweta:** Sir, the second on the borrower addition front; so obviously seasonally Q1 tends to be a weaker quarter. Also, there have been transitory challenges as you explained, but this consistent decline in borrower addition in the past three to four quarters. So, now that we are at a number of 1200 or kind of a number, how much of this would you attribute to these transitory challenges and how much would be on the grounds of prudence wherein we are sort of trying to curb the challenges because of the industry headwinds.

**Udaya Kumar Hebbar:** I think there is a correction, our customer additions have not reduced except last quarter. Y-o-Y we have seen the borrower base go up by almost close to 13%. So, it's quite healthy customer relations. It's only in Q1 that we had a transition challenge. Now we are already back to normalcy about 100,000 customers per month we should start going back. If you go back last 12 months other than the first quarter you would have added almost 100,000 new customers every month. There is no reduction in earlier quarters, but it's already come back to normalcy in terms of the acquisition, we would be able to acquire almost 100,000 clients from this month onwards.

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

**Abhishek Murarka:** My first question is, just on this rains which have been really disruptive; there have been flood conditions in several parts. Any kind of impact due to that in this second quarter so far?

**Udaya Kumar Hebbar:** We don't see. Normally Abhishek, when the rain impact is a very short term, nothing should happen actually. When the rain impact on the ground is more than 1 week to 2 weeks, then there is a difficulty in the earning capacity of the customer, then it will impact. But we are not anticipating that. So far that situation has not happened. So, let us say in 2019 when 15 days there was rain across causing flooding, and people getting displaced, then there was an impact. But we are not anticipating anything.

**Abhishek Murarka:** So, far you have not seen that in any major...

**Udaya Kumar Hebbar:** No.

**Abhishek Murarka:** And sir the other thing is their credit cost guidance, so at 2.4% also, for the full year, the implied credit cost for the rest of the year has been 2.1%-2.2%. So, do you think there is an upside risk to that?

**Udaya Kumar Hebbar:** Should not be actually. Now, as you said it is a kind of stabilising now and we will review it by Q2, but we have a strong sense that it should be normal. We anticipated and which is in line is

the only Q1 little higher actually, but we still believe that our overall credit should be within the guided range for the year. The first quarter has a low base effect as well as a low growth effect. At the overall level, it should not change.

**Moderator:** Thank you. The next question is from the line of Ashlesh Sonje from Kotak Securities. Please go ahead.

**Ashlesh Sonje:** Just a couple of questions. Firstly on the MFIN rules, would you have a sense of what is the proportion of your borrowers who would be in breach of either of those two rules, either there are more than 4 lenders or the exposure is more than 2 Lakh.

**Ganesh Narayanan:** Our current analysis says there could be an impact of roughly 8%. But I think with new customer acquisition, we should be able to manage that.

**Ashlesh Sonje:** And what is the typical plan of action for these borrowers in your case?

**Udaya Kumar Hebbar:** See, normally these borrowers have a high vintage and good business. There's always a position for them to move to retail finance also. Some of them because it is the right business, right culture, and opportunity, we have a few fair products, and they can always move to them. Others, we may have to decline. But yes, we have to compensate through our higher customer acquisition in such case.

**Ganesh Narayanan:** And to a certain extent, this INR 2 Lakh limit was an internal guideline already we have.

**Udaya Kumar Hebbar:** Already we are following.

**Ganesh Narayanan:** So, we could have a certain impact with four lenders. But I think that we should be able to compensate through a better run rate.

**Udaya Kumar Hebbar:** Ashlesh, INR 2 Lakh cap we are already following as a part of internal guidelines.

**Ashlesh Sonje:** Understood, sir. And you mentioned that you have tightened some credit filters. Can you please elaborate on what changes you have made exactly?

**Udaya Kumar Hebbar:** So, one is whatever MFIN is asking, largely we are already doing it in our book. On top of that, we have certain geographical grade filters using the rule engine. For example, if you feel a state is a high risk, we wouldn't allow even 4 lenders, we may do 3 lenders or 2 lenders, depending on our loan size variation based on the geography and risk, pricing based on geography risk. All these are filters that we are using in the rule engine. So, it depends on each risk there is, we can actually play with the rules that we are using.

- Ashlesh Sonje:** And these tighter credit filters would be largely temporary or these are more permanent in nature?
- Udaya Kumar Hebbar:** It depends. If the risk continues, we have to continue the filter, right? So, we will keep evaluating every quarter or two quarters and see if there is a variation whether you have to tighten or loose, we can do that. So, the good part is we have right software, right engine to manage these things.
- Moderator:** Thank you. The next question is from the line of Sebastian from DWS Investment GmbH. Please go ahead.
- Sebastian:** I just have a general question about the regulatory environment, as per the RBI, the regulator making any statements about the bank, for the loans to NBFCs? How do you expect the regulatory environment for the rest of the year to shape up? What kind of measures do you think the financial sector needs to put on itself in order to appease the regulator bit more?
- Ganesh Narayanan:** I think there has not been any further regulatory action or indications except for pricing that the regulator is closely monitoring. However, the self-regulation that the industry has put in through the SRO is also in the right direction, right? So, you are reacting much proactively to the market conditions and that I think will go on the right way toward the regulatory governance.
- Udaya Kumar Hebbar:** On loans to NBFCs, I think it's more of NBFCs that are exempted from such kind of risk weight for priority sector lending. So, by default any lending by banks to NBFC-MFIs, the rules are exempted, Sebastian.
- Moderator:** Thank you. The next question is from the line of Hardik Shah from Goldman Sachs. Please go ahead.
- Hardik Shah:** I have two questions. The first one is on the borrower addition. Incrementally, what could be the proportion of NTC borrowers that we are onboarding and on a stock basis, what would be the customers which would be unique to CREDAG?
- Udaya Kumar Hebbar:** If you observe for the last four quarters, we saw about 30%, 32% to 35% new to credit. We feel that will remain at the same trend of 30%-35% and unique customers are little declining base because as we keep acquiring customers from other MFIs, the unique count will come down. Currently, we are at about 29%. It's a small marginal change that will happen as we add more and more customers with other customers belonging to other MFIs or other lenders.
- Hardik Shah:** Understood. And sir my second question is on the over-leveraging. Your slides also mentioned that you're seeing some kind of overleveraging on the ground and also Bureau data suggests that there is a high level of retail loan exposure to the MFI borrowers especially in the states of Karnataka and Tamil Nadu. So, can you share some color on your portfolio? How much of your

borrowers would have detail overlap in terms of the number of customers as well as value if you have that?

**Udaya Kumar Hebbar:** I think the percentage you are referring to Crif HighMark report, so largely it resonates with other players and us also but it's more of a secured kind of book what we saw like gold loans or a Two-Wheeler or a housing loan kind of thing, home loan. So, which are longer tenures or somebody in the home other than the customers would be paying. We are not seeing any such impact because of that on our customers. Gold loan is one common thing across the southern part of the country, which is normally they would pay only interest and again keep renewing it, so therefore it won't impact as leverage for our customer. However, in the last three quarters what we observed is the leverage of the customer has increased by about 16% or something, the overall leverage we saw on a sample basis, not full customers. Similarly, the FOIR or repayment load or something also increased by about 12%. So, which we saw in our sample, we keep watching this and taking corrective actions based on the pockets. As I said, we strengthened the management, strengthened the teams in the pockets where things happened. We keep watching with the samples, we lot of full data, but we have to go by some samples.

**Ganesh Narayanan:** Our retail finance strategy will also take care of it. The whole logic of building a retail franchise in CreditAccess Grameen is seeing the trend in which customers are availing retail finance loans and the products that we have chosen are also in that nature. So, as the customer's income profile improves, we have a better credit history. They will have access to retail finance products from CreditAccess itself. We can move them up as we move forward.

**Hardik Shah:** Interestingly, the retail finance delinquencies are much higher than the microfinance delinquencies that we see in the industry. Any specific reason for that? How do you read that? So, you mentioned that is a more secure kind of a book, for example, housing loans are showing 30 plus DPD as high as 10% as of March 24, so how do you read that data?

**Ganesh Narayanan:** See, the difference between industry and CA Grameen is that we are doing retail finance with carefully selected products who have vintage with us, who got a credit history and relationship with us. Hence, we will always be better than the industry even in this side of the business.

**Udaya Kumar Hebbar:** See one of the data points probably what Ganesh says, it is very important. The unique to Grameen and vintage with Grameen, we have seen absolutely great credit patterns. That is what we are actually capitalising on when we do this retail book.

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

**Shreepal Doshi:** Just one question on the classification of states in terms of low risk, medium risk, and higher risk. So, have you seen any deterioration in this in the last quarter given that the PAR number in states like as you highlighted Rajasthan, Kerala, and Jharkhand has increased and also in the

slide that we have given in the presentation, shows that even states like Bihar have elevated PAR 0 number? So, have you seen the risk classification changing for some of the key states for us?

**Udaya Kumar Hebbar:** State wise we have stopped tracking now. Our total 29% portfolio which was falling under high risk whereas when you moved to the district, now 24% fell under high risk. And then medium actually 40:30, 40% medium it actually reduced to 30% whereas low risk it used to be 31% of the book actually which is now around 35% of the book coming under low risk, given this transition.

**Shreepal Doshi:** So, there has been some movement is what you're trying to indicate but it is less on the state and more on the district side.

**Udaya Kumar Hebbar:** More district side, correct.

**Shreepal Doshi:** The second part, like with this new MFIN guidelines, do you expect that even in key states like Bihar, Andhra, and the newer states that you are targeting for incremental growth, we would see some moderation in our aspirations given that like especially Bihar, UP, these are decently penetrated states in terms of MFI presence. So, overall, our loan growth would also see some moderation in terms of what's in our guidance in the presentation.

**Udaya Kumar Hebbar:** It is important to note that the industry body has come up with the self-regulatory assurance that we rebuild, or we will make it a more resilient business going forward. I think we should anticipate this better and improve the learning process going forward because it is accepted by all entities and everybody comes together under the banner. This includes the MFIs, the SFBs, the NBFCs, and the banks together. Today, all of us are part of one entity, MFIN and then the responsibility is accepted by all of us together. We believe it should be better going forward. I agree that there could be some moderation in growth for a shorter period, maybe not a longer period. In the short period, there could be some growth moderation for the whole industry. We too assumed a kind of little lesser growth. If you see, last year our microfinance growth was 24.7%. What we actually build for FY24-25 is only 20%. Though the total growth we anticipated is 23% - 24%, microfinance growth is only 20%. This is already built into our budget. When we started our annual exercise this year, the little higher credit cost, and little low growth in microfinance were anticipated specifically for Grameen.

**Shreepal Doshi:** Just last one question, it is on center meeting attendance. What is the difference that we have when we talk about center meeting attendance in the state of Karnataka, which is probably the best performance state for us and for industry versus probably the rest of the states? So, for us, what would be the difference in terms of center meeting attendance?

**Udaya Kumar Hebbar:** See largely Karnataka, Maharashtra, Madhya Pradesh, and Chhattisgarh, all are quite good in terms of attendance, with little deviation we could see in the other parts of the country. Where we have a core market and the first entry, we are able to maintain that culture to a large extent,

but overall, still we have a good 50%-50% in most part of the country. Yes, a little higher in Karnataka definitely.

**Shreepal Doshi:** So, what would be in Karnataka, for example, like just to benchmark it?

**Udaya Kumar Hebbar:** Karnataka maybe about 70% - 72% and then the overall market may be 50% approximately. I'm not able to give right now yet. But overall sense I'm having.

**Moderator:** Thank you. The next question is from the line of Ajit Kumar from Nomura. Please go ahead.

**Ajit Kumar:** So, my first question is the regulator has been instructing MFI lenders to lower growth in Bihar and UP as per various news articles. Is there any communication that is currently going on with the regulator on this and also your portfolio in Bihar and UP has become 3x and 4x respectively between FY22 to FY24, much higher than the overall AUM growth. Are you going to intentionally tone down growth in these states that would be my first question.

**Udaya Kumar Hebbar:** There has been no communication from RBI to any MFI. We have also seen news articles, but nothing else. We have not heard from anybody that RBI wrote to anyone to reduce or make any statement about it. In terms of growth, we follow the calibrated growth approach. We continue to watch the industry, watch the risk of each district, and accordingly, we'll go. I think our growth what we estimated is not very high. Therefore, we will still continue to grow with the calibrated manner in most states also, but in Bihar, we are not planning any branch openings because we have sufficient branches there. It's only growing in the branch where we already have existing branches. In Uttar Pradesh probably, we will expect to add some more branches, but new branches should come from Andhra Pradesh, Telangana, or West Bengal.

**Ajit Kumar:** Sure. And sir in order to achieve this 23% to 24% AUM growth target in FY25, what is the disbursement growth target in FY25?

**Udaya Kumar Hebbar:** It is similar to about 23% to 24% of disbursement growth.

**Ajit Kumar:** For the full year, right?

**Udaya Kumar Hebbar:** Yes, correct.

**Ajit Kumar:** So, sir, in that context, disbursement growth in the remaining FY25 has to be around roughly, you can say 28% to 30%. That is a steep task given soft disbursement even in July and August. And if we see the last year, disbursement growth during 2Q 24 to 4Q 24 versus let's say 2Q 23 to 4Q 23 was only 12%. So, this disbursement growth target seems a little bit on the higher side.

**Udaya Kumar Hebbar:** No, annualised growth last year for Q1 and Q2 together was about 8%. The balance 19% of the growth we achieved in Q3 and Q4, the last year. We believe in microfinance normally, 60% to 65% growth comes in the second half of the year.

**Ajit Kumar:** Sure, so that is achievable.

**Udaya Kumar Hebbar:** Correct, you are right.

**Moderator:** Thank you. The next question is from the line of Raghav Garg from Ambit Capital. Please go ahead.

**Raghav Garg:** Just one question from my side. When you look at the food inflation data, that food inflation has been quite persistent and it matters even more as food expenditure as part of the overall expenditure is pretty large for bottom-of-the-pyramid customers given their income levels and rural wage growth in real terms has been negative for last quite a few quarters. On the other hand, you have a typical MFI customer seeing about 10% to 11% increase in exposure levels on a Y-o-Y basis. So, in light of this, how do you expect the repayment capacity to evolve over the next 12 months for your customers or if you can comment on the broader industry, that will be very helpful. Thanks.

**Ganesh Narayanan:** I think we have seen in history in times of inflation, our customers who are largely into similar profiles earn a little more and sometimes it's also giving a negative correlation to collection. Having said that, whatever the self-regulation that MFIN imposed, I think this will limit any kind of overleverage that could build up over the next few quarters and it should improve from here. I don't see it deteriorating from where it is today over the next few quarters.

**Moderator:** Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

**Sarvesh Gupta:** Most of my questions have been answered. Just one question on this overall sort of delinquency that we are seeing, I think you have been alluding to these being majorly caused by the election and the heat waves, but at the same time, there are a lot of concerns and the news reports that we have been reading about over leveraging and this sort of credit cost being expected to go up along with that. So, how do we reconcile this information? I mean this is just a Q1 phenomenon which should stabilise by let's say Q3 for you or we are still in a wait and watch mode to understand how things will shape up with respect to delinquency, especially in the non-core states?

**Udaya Kumar Hebbar:** Yes. I think about the delinquency potential in the non-core states, we had anticipated that there would be a little higher credit cost compared to the core states, the mixture of all things being over-leveraging, it could be customer migration, it could be political, or some local intervention. Many other parts will be there. That is a major reason why the credit cost increased because of the sensitive period of 60-70 days, the ability to follow up and convince the customer was less due to this sensitivity. This is the major reason the buckets have moved further. Now what I'm telling is that after that, I think it's the ability to go back and talk to customer and convince them to repay is higher. Therefore your ability to control the credit cost is higher. We can keep listing

many other events also, but we only give the high-frequency reasons during the quarter. And our strong belief is that this is a one-time and a little higher and as we said earlier, we saw 3-4 quarters, there's a little increase all the time in the non-core states. There's a reason we build a little higher credit cost. So, I just explained that earlier.

**Sarvesh Gupta:** And it also appears from your comments as well as what the industry body is trying to do that any such effort to contain the credit cost going forward would be at a significant cost to the industry growth rate in terms of the AUM. So, would you agree with that sort of statement?

**Udaya Kumar Hebbar:** It depends. If somebody wants to go and lend to the same customer in the industry then what is right. But there is still opportunity because as per the industry estimate, potential microfinance customer are almost 16 Crore. And what you addressed is only about 8 Crore so far. So, if you spread around your acquisition formula and go to a deep rural place instead of doing it only in cities, I think still you have a good opportunity.

**Ganesh Narayanan:** Growth has to be widespread.

**Udaya Kumar Hebbar:** Growth has to come from the customer acquisition route, not particular by increasing ticket size, that's all.

**Sarvesh Gupta:** Understood. And sir finally, at the same time, we are also seeing normal sort of rainfalls across the country. So, that is expected to sort of help the rural economy. So, do you expect any upsides happening because last year was also not so good on that account? So, in your model projections and what we are seeing on the ground, do you see any upsides coming from a normal rainfall?

**Udaya Kumar Hebbar:** Rainfalls should actually help you stabilise further on what you call credit cost and collections actually. Automatically when the rainfall is normal, agri product, agri job level gets improved, and agricultural level improve. I think it will only improve the collection efficiency and less of delinquency, demand will go up. It is always positive.

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

**Nidhesh Jain:** Sir, you mentioned in the presentation that you are tightening filters while onboarding new customers and extending loans to existing customers. So, what exactly we are doing here and what will be the target in terms of new customer acquisition for FY25?

**Udaya Kumar Hebbar:** The target for new customer acquisition, I think we already told, it is about 13%-14% which will be our customer growth anticipated for FY 25. The tightening is on both sides. One is renewal and one is both the new customer and even in both cases, the tightening will be different in different states, probably different districts. Depending on the risk behavior, we may like what I said earlier though MFIN said four customers or not more than four lender, so in many states we have only 2 lenders as per the rule. Maybe in some districts we will go only with only 2 lenders'



rule or less, so it's all actually based on the risk. We will not have a general rule for everything. We go by the risk and react to the risk at each district level. So, the granular check is given anticipating risk, tightening the rule, tracing it appropriately, and provisioning accordingly. All three will go with the correlation actually, all four items go with correlation at a granular level.

**Ganesh Narayanan:** And if I may add with us adopting the rule engine, we have got a lot more power in hand. So, all our attempt is towards making this a lot more finer, making it a little more resilient than what it was when we were doing it at a state level. So, we could work on many variables including repayment obligations of customers like some of you pointed out, and their overall leverage including retail loans, you can even look at many other variables as we move forward. We can work on pin codes, we can work on certain villages. Whatever we want, we have the power to do it. So, we are able to look at things a lot more granular than what we used to do earlier.

**Nitesh:** Sure. Secondly, in terms of PAR0, do you think this has peaked out here or there is a possibility of a further increase in PAR0 from the current levels?

**Udaya Kumar Hebbar:** Our belief it will be stable for some time and start coming down.

**Moderator:** Thank you. Ladies and gentlemen, we will take that as the last question. I would now like to hand the conference over to the management for closing comments.

**Udaya Kumar Hebbar:** Thank you everybody for joining in the late hours. So, look forward to the next quarter and for your support. Thank you so much.

**Moderator:** On behalf of Motilal Oswal Financial Service Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.