



**“CreditAccess Grameen Limited
Q2 FY'26 Earnings Conference Call”
October 28, 2025**



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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 Q2 and FY'26 Earnings Conference Call hosted by Motilal Oswal Financial Services Limited. As a reminder, all participant line will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone.

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

Abhijit Tibrewal: Thank you, Danish. Good evening, everyone. I'm Abhijit Tibrewal: from Motilal Oswal, and it is our pleasure to welcome you all to this earnings call. Thank you very much for joining us for the CreditAccess Grameen call to discuss Q2 FY'26 earnings. To discuss the company's earnings, I am pleased to welcome Mr. Ganesh Narayanan, Managing Director and Chief Executive Officer; Mr. Gururaj Rao, Chief Operating Officer; Mr. Nilesh Dalvi, Chief Financial Officer; and Mr. Sahib Sharma, DGM, Investor Relations.

On behalf of Motilal Oswal, we thank the senior management and the Investor Relations team of CreditAccess Grameen for giving us this opportunity to host you today. I now invite Mr. Ganesh Narayanan for his opening remarks. With that, over to you, sir.

Ganesh Narayanan: Thank you, Abhijit. Good evening, everyone and a very warm welcome to discuss our second quarter and the first half of FY26 business performance.

We are pleased to report an improving trend in second quarter performance, reflecting consistent business momentum and stabilising asset quality. Despite the seasonally weaker nature of Q2, the outcome built on the strong trajectory established in Q1 FY'26, demonstrates the underlying strength of our customer-centric business model. We continue to operate in an evolving macro environment, and it is encouraging to note that economic indicators remain supportive. Healthy monsoons, strong agricultural output, and strengthening rural ecosystem trends are expected to drive robust on-ground demand in H2 FY26, resulting in stronger loan portfolio growth.

We disbursed Rs. 5,322 crore in Q2 FY'26, a 32.9% increase YoY. In H1 FY26, we added ~4.4 lakh new borrowers, of which 2.2 lakh borrowers were added in Q2 FY26. Notably, 39% of new borrowers added in Q2 were new-to-credit, reflecting our customer acquisition strength. With a healthy proportion of new-to-credit customers being added each quarter, the portfolio share of unique borrowers has risen to 41%, compared to 27% in Aug-24. We continued to strengthen our last-mile reach as we opened 150 branches in H1 FY'26, including 96 in Q2 FY'26, taking the total branch count to 2,209.

As stated on Slide 3 of the Presentation, the Retail Finance (RF) portfolio share now stands at 11.1% of the AUM at the end of Q2 FY'26 Vs 6.8% in Q1 FY'26. Firstly, the RF % share optically appears higher given a temporary decline in GL book due to accelerated write-offs. As the GL book growth picks up in H2 FY'26, the RF share is expected to show stable trend.

Secondly, the Retail Finance growth also reflects a well-calibrated strategy driven by disciplined underwriting. Stabilising PAR trend across GL branches and higher regulatory limit for non-MFI asset classes, is enabling us to expand individual business loans through GL branches more effectively. Loan renewals of high-vintage group customers with better incomes, through individual business loans are supporting stronger borrower retention. With ~45% of GL book being 3-year loans, there is a good probability of graduating these customers to the retail finance in future. The graduation to retail finance would also help in better asset quality as the individual business loans are displaying relatively superior asset quality due to vintage customers and better underwriting.

Our employee base grew from 21,333 in Jun-25 to 21,701 in Sep-25 with annualised attrition rate of 28.9% in Q2 FY'26. Employee engagement and morale remain strong as we continue to drive steady growth, while maintaining a consistent focus on asset quality and profitability.

The deleveraging trend is moving on the expected lines with GLP % of borrowers with > 3 lenders at 6.9% in Sep-25 vs. 25.3% in Aug-24. The GLP of borrowers with > Rs 2 Lakh unsecured indebtedness stood at 7.2% as of Sep-25 compared to 19.1% in Aug-24. Further, the average total unsecured debt of CA Grameen borrowers and the average monthly obligation have declined by 2% QoQ. PAR 15+ in case of borrowers with 4 lenders stood at 15.1% as of mid-Sep 25 Vs 14.3% in mid-Jun-25. Similarly, PAR 15 in the case of borrowers with more than 4 lenders, stood at 30.2% in Sep-25 Vs 31.1% as of mid-Jun-25. This shows that the delinquencies have largely crystallised in case of borrowers with > 3 lenders, while around 80% of these customers continuing to make regular payments.

Our accelerated write-off journey has served its intended purpose by cleaning the legacy stress book and strengthening the foundation for sustainable growth in H2 FY'26. In Q2 FY'26 we undertook write-off of Rs. 683 crore, including an accelerated write-off of Rs. 554.7 crore related to 180+ dpd non-paying accounts, leading to an additional credit cost of Rs. 172 crore for the quarter. The share of credit cost due to new PAR accretion is consistently declining since Q3 FY'25. The Company continued to hold ~156 bps (Rs. 383 crore) higher provisions over PAR 90+, ~268 bps (Rs. 681 crore) higher provisions compared to IRAC prudential norms, and Rs. 89 crore higher provisions compared to NBFC provisioning norms. Our collection efficiency (excl. arrears) stood at 94.5% for Q2 FY'26. PAR 90+ stood at 2.50%, GNPA of 3.65%, and NNPA of 1.26% both predominantly measured at 60+ DPD.

Net interest income grew 4.2% QoQ to Rs. 976 crore with portfolio yield at 20.7% and interest spread of 11.1%. Our average cost of borrowings continues its downward trajectory, having declined 11 bps to 9.6% at the end of Q2 FY26. During Q2 FY'26, we raised Rs. 3,519 crore, with marginal cost of borrowing stood at 8.9%. Our foreign borrowings stood healthy at 23.7%, progressing toward our medium-term target of achieving 25–30% foreign borrowings by FY'28. NIM remained steady at 13.3% for Q2 FY'26. Cost-to-income ratio stood at 32.5%, while PPOP stood at Rs. 695 crore in Q2 FY'26. The liquidity levels, including cash and cash equivalents, were adequate at Rs. 2,176 crore, amounting to 7.9% of total assets. Additionally, we have sanctions in hand of Rs. 3,455 crore and another Rs. 6,260 crore worth of sanctions in the pipeline. The capital adequacy remained comfortable at 26.1%.

We delivered a PAT of Rs. 126 crore in Q2 FY'26, leading to ROA of 1.8% and ROE of 7.1%. The past few quarters clearly show that the industry has navigated challenges with remarkable resilience and discipline. Portfolio quality continues to improve, supported by prudent underwriting, focused collections, and sharper risk management across the ecosystem. We remain at the forefront of this upward trajectory, creating sustainable value for all stakeholders while reinforcing confidence in sector's long-term strength.

The PAR 15+ accretion rate trajectory remained range-bound, due to the temporary impact of heavy rains / floods across operating geographies. Since the PAR accretion rate is 40-45 bps as against 25-30 bps expected, every month of delay in PAR accretion improvement is resulting in an additional credit cost of 15-20 bps. Due to this delayed improvement, we expect additional 40-50 bps credit cost in FY'26. Further, we also anticipate increase in our ECL provisioning rates in line with the recent monthly PD & LGD data points. This would result in an additional 30-40 bps of credit cost impact in FY'26. Hence, overall for FY'26, we may see credit cost deviation of 70-100 bps as against our initial performance guidance. Further as we move into FY'27, we anticipate another 70-80 bps increase in ECL provisioning rates due to inclusion of recent monthly PD & LGD data points. Hence, the overall credit cost may range in 4-4.5% in FY'27, including the one-time ECL rate revision of 70-80 bps. Post this revision, the ECL rates should remain range bound.

Amidst the evolving market environment, we continue to leverage our risk-based pricing strategy, low cost of borrowings, and efficient operating structure to protect our ROA within the 4-4.5% range, whilst being one of the lowest-cost lender in the industry.

Before concluding my remarks, I am pleased to share with you all a significant development of our Board. Mr. Manoj Kumar has been appointed as the Chairman and Independent Director. A member of the Board since 2019, Manoj brings a rare blend of strategic foresight and entrepreneurial depth. He is the Founder of Social Alpha, which is at forefront of technology-led innovation tackling critical social and environmental challenges. He is the Founding Trustee of the Tata Institute for Genetics and Society. With more than two decades of experience spanning banking, capital markets, and fintech, Manoj brings the blend of integrity, and purpose to this leadership role.

Thank you for your patient hearing. We now open the forum for questions and answers.

.Moderator:

The first question is from the line of Abhishek from AB Capital.

Abhishek:

In Q1, you had indicated that we will grow the book by around 12% to 14% in FY '26. So now that in this quarter, it was by 3%, can we expect in H2, we will have more than 20% growth, robust growth we will expect?

Nilesh Dalvi:

Yes. So, Abhishek, we do have visibility on the growth front. In the first half, while you see the disbursements have grown at 27% on a Y-o-Y basis, but it has not resulted in growth because of accelerated write-offs.

Now in the second half, we will have a normative write-off trajectory. So that is where the disbursement growth will translate into portfolio growth. Largely, we do see we'll be able to meet the growth guidance what we have given.

Abhishek: Okay. And the PAR in MP was showing that it is gradually increasing. Is it something to worry about or it is normal?

Ganesh Narayanan: This is something that we are watching. There is a little bit of rain impact here. There has been a slight movement in PAR, but I think there is nothing to worry at this point of time.

Moderator: Our next question is from the line of Renish from ICICI Bank.

Renish: Congrats on a good set of numbers. Sir, just two, three things from my side. One on this, the entire credit cost guidance you have shared. If I read it correctly, you said that in FY'26, our credit cost will be higher by 70 basis points to 100 basis points than the earlier guidance range. Is that correct?

Ganesh Narayanan: Yes.

Renish: Okay. Now moving to the FY '27, wherein you did mention about the credit cost remaining at 4.5%, which is again 70 bps, 80 basis points higher. But I'm not able to understand when you said that the ECL impact will be there. I mean -- so what should lead to this higher credit cost? When you say ECL refreshment, it is basically you are saying your PD, LGD will go up, because this year, delinquency data will be there in next year ECL model is that you're referring?

Nilesh Dalvi: Yes. So basically, the PD, LGDs are moving up. And hence, your provisioning rates will also move up, because of the recent data points that can go through the ECL model. We are envisaging that the next year credit cost would be in the range of 4% to 4.5%. Renish, in this, we will see -- so like even if you have seen from Q1 to Q2, there has been an increase in our Stage 2 and Stage 3 provisioning rates.

This has primarily happened because of increase in the LGD data points. So even in second quarter, if you see out of the Rs. 525 crore of credit cost, there is a Rs. 35 crore of credit cost impact on account of increase in LGD rates. And now in third and fourth quarter, we believe that even the new PD points will start getting counted, I mean, included in the workings. So that will result in the Stage 1, 2, 3 provisioning rates slightly inching up.

And then next year, again, there will be inclusion of the PD points. So we don't see any larger change in LGD. But we have seen, in PD, we will see increase, which will result in increase in the ECL rate. So out of the 4%, 4.5% credit cost, maybe around 70, 80 bps is the impact because of ECL, which is a onetime impact. And the remaining 3% to 3.5% or 3.3% to 3.6%, whatever that range is, that is considering the new PAR accretion.

We have made a little conservative estimate considering that the new PAR accretion stays around 35 bps per month. But if we are able to improve the new PAR accretion to the range of 20 to 25 bps per month, then maybe the number may come lower.

So as of now, we have given this figure basis the current trend what we are seeing. We may come up with revised numbers maybe along with our fourth quarter results, if we see if there is any improvement in the monthly PAR accretion rate.

Renish: Got it. So okay. So just a follow-up on that. When you say that there will be onetime impact of this entire ECL refreshment in FY'27, but then in FY'28, I mean, going ahead also that PDs will remain in ECL, right, even if it is on a rolling basis.

Ganesh Narayanan: Yes. So ECL gets calculated on a longer time period, right? So, if you have better performance during the next year, subsequent years, the rates could moderate, but it may take some time to come back to normalcy still. It may not go further because this year, the current year's 12 data points will already be part of the computation in next year. So if next year, if we see the trend reversing, then obviously, in FY'28, we'll see the ECL rates coming down.

Renish: So, you are using what, 24 months rolling basis or 36 month rolling basis?

Ganesh Narayanan: 36, yes.

Renish: 36 months rolling basis.

Ganesh Narayanan: 36. Yes.

Renish: Got it. Okay. Okay. This is helpful. And secondly, again, on the growth side, I mean, adjusted for write-off and all will be delivered 14%, 15% growth this year. But what should be your target for next year in FY'27?

Ganesh Narayanan: It should be in the range of 20% plus combining retail finance and microfinance, but I think we should look at guidance by end of the year. But at least prima facie, we are confident, because we've added branches and the momentum is coming back. PAR is normalizing across all geographies. We should see momentum and we should see growth quite reasonably.

Renish: Okay. Got it. Got it. And just a last clarification, sorry. You said ROA at 4% to 4.5%, even after adjusting 4%, 4.5% of credit cost in FY'27?

Nilesh Dalvi: Yes. So Renish, this will largely be achieved through better operating profits. Even this year, if you see, even in second quarter, despite an 8% annualized credit cost run rate, we have given a 1.8% ROA, which means that we are doing close to 9.5% to 10% of PPOP.

And we still see some upward levers in our PPOP because the yields will keep improving as the interest reversal quantum keeps coming down. In first half, we had a sizable interest reversal quantum, almost Rs. 176 crore of interest got reversed, which will not reoccur in the coming quarters. We will see yield going up, plus our borrowing cost is coming down every quarter. So that will also help us to strengthen our NIMs. And even the operating cost will keep coming down, because in first half, the operating cost is higher, because we have added almost 150 new branches and the portfolio has kind of stayed flat over the last 4 to 6 quarters.

As the growth picks up, we believe the operating cost will again start trending towards our earlier 4.6% to 4.7% levels. All these factors will offset the higher credit cost. And we believe we our

PPOP will cross 10%, and it will still be able to absorb the credit cost impact and give us the intended ROA.

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

Abhishek Murarka: Actually, my question was pretty much just answered by Nilesch that the second half should still see the 4.5% ROA achievement, which you had guided for last quarter. That's just sort of reconfirming this.

Nilesch Dalvi: Abhishek, this 4.5% we are saying on a steady-state basis, but maybe third and fourth quarter, the it maybe slightly lower. The revision in the PD rates will reflect into a slightly higher ECL in third and fourth quarter. And the benefit of pricing will only come gradually.

The benefit of pricing, the benefit of borrowing cost, these will play out largely in next year, though we will still see yields sequentially improving in third and fourth quarter. Tha we have also seen the yield improving by almost 40 basis points in the second quarter. We should see yields keep improving in third and fourth quarter. But I think we may do maybe 4-ish kind of ROAs, 4.5% kind of ROAs may be possible next year.

Abhishek Murarka: Okay. Because your cost of borrowing should also fall quite a bit because your marginal cost is nearly 70 basis points below your weighted average, plus your yield is improving 30, 40 bps plus the interest reversal almost accounts for 140 bps of yield. So even if that were to come down, you would get a fair bit of release over there. I thought that it would still be enough to sort of counter your 70, 80 bps or 90 bps higher credit cost. Don't you think that...?

Nilesch Dalvi: It will happen, Abhishek. The only thing is like it will be more gradual process. While the borrowing cost is coming down, but if you see the weighted average borrowing cost is down by 20 bps in the year. It's not that the entire benefit has flown as of now because if you look at our borrowings, there is a 65% floating rate borrowings, which are linked to MCLR. But these MCLR resets happen over a period of 3 months, 6 months and 12 months. We have still not seen the entire repricing benefit. Whatever benefit which you are seeing, which is appearing in our weighted average cost of borrowing is on account of the marginal borrowing cost coming down.

But the existing borrowings will also get repriced over a period of time as we keep hitting the reset dates. So that's why we believe that maybe this year, our weighted average borrowing cost started at 9.8%, maybe we end the year somewhere at 9.5%. So next year, we start at 9.5% and maybe we may have an average borrowing cost of around 9.3%. From that perspective, we will see an entire 50 bps of benefit in our cost of borrowing in next financial year.

And plus, even on our yields, we will see a similar 50 bps of benefit. And even the opex will come down by 20 bps. That's where we see around close to 100 bps of better operating profit, which will offset the credit cost. So, this full impact will play next year. This year in third and fourth quarter, partial impact may play.

Abhishek Murarka: Understood. The second question, this, is on this write-off. So, if I look at the presentation, I think it's Rs. 680 crore or so overall. Last quarter was Rs. 690 crore, it's Rs. 680 crore roughly.

So, when do you see that number coming off more materially? Should we expect that to start coming off in 3Q? And how much of that -- now you are there -- how much of it is eligible for accelerated write-off?

Nilesh Dalvi: We are largely done with the accelerated write-off cycle. There may be some portion of Karnataka book, which we have to see, but largely, we are done. So, you will not see these figures in third and fourth quarter. The figures will be much lower, much, much lower.

Abhishek Murarka: The Rs. 170 crore accelerated write-off, that should come off materially. And yes, the remaining Rs. 500-odd crore, Rs. 510 crore, that should also see an improvement because now your PAR and forward flows and all of that should be coming down.

Ganesh Narayanan: Right. Right. Sequentially also you are seeing that cost due to new PAR accretion is coming down, right? One of the slides you will see that quarter-on-quarter the contribution of credit cost due to write-off and PAR accretion. So that is falling down. It's expected to fall down further in Q3. And since we've done away with most of the accelerated write-off, you will see a much lesser component going forward in accelerated write-off also.

Abhishek Murarka: Ganesh, just one thing is confusing me, maybe I'm looking at it wrong. So, your write-off is Rs. 690 crore in first quarter and accelerated write-off out of that is Rs. 192 crore. So, Rs. 500 crore of normal write-off.

Nilesh Dalvi: No, Abhishek, you are reading it wrongly. Like in second quarter, out of the Rs. 680 crore of total write-off, the accelerated write-off is Rs. 554 crore. In first quarter, out of Rs. 692 crore of total write-off around Rs. 600 crore was accelerated write-off in first quarter.

The Rs. 192 crore and Rs. 172 crore figures, they are basically the credit cost impact, because when we write off, it will not entirely hit the P&L. Only the unprovided portion will hit the P&L. And typically, we'll have 70% provisions in place.

Abhishek Murarka: Yes. Got it. Got it. The third question is your opex. Now if you look at your opex to asset last 5, 6 quarters, it had rafted at roughly 4.4% last year 1Q. And from then, it has continued to go up. Partly, I think it would be because of your base.

But is there any other part of the opex, which can sort of start coming down? So, what parts can you save on and which you are hoping to drive that improvement in your cost to asset next year?

Ganesh Narayanan: It is largely due to the AUM decline, right? So otherwise, you increase branches, you increase employees, your increments have gone up, but your base has fallen. As we start building the portfolio size, it should fall back to normalcy in some time. There's no other component in this.

Moderator: Our next question is from the line of Deekshant from DB Wealth Management.

Deekshant: So, the first question is that the recent sort of environmental damage that we are seeing in Maharashtra, is that concerning to you? And how are we modeling for this right now with the current guidance that we are giving?

Ganesh Narayanan: You're talking about the rains, right?

- Deekshant:** Yes, correct, the floods and the rains.
- Ganesh Narayanan:** Yes. So typically, during these periods, some of these geographies do see rains, including the Chennai rains that are happening as we speak. Right now, all of this is a part of our ECL model. There is nothing specific that we are working on. And typically, we've seen any rain impact is short term in nature for us, and it typically comes back roughly around 3 to 4 weeks.
- Deekshant:** Okay. Okay.
- Ganesh Narayanan:** The point I'm trying to is all these cycles of rains, etc, which are an yearly pattern and what happens because of that, all of that goes into our ECL model itself, right? So it does take of it to a certain extent. Otherwise, we are not currently seeing a product, something like a natural calamity insurance or something, which we've explored. We think at this point of time, we may not look at something like that unless we see a substantial benefit to the customer from it.
- Deekshant:** Okay. The second question is, it seems that from the inference of our conversation fully that we might now start pressing the accelerator on loan disbursement. Is that the right assumption from our end?
- Are we now in a confident state that we can now start pushing the accelerator? And part B to this question is what kind of acceleration are we seeing in this current quarter post September? That means how has Diwali been for us?
- Ganesh Narayanan:** Ideally, for us, Q3, Q4 are strong quarters. With situation normalizing at ground, what we are saying is that we are confident of meeting the guidance that we've given at least from the AUM perspective, right? While the credit cost is going up, the growth perspective, I think the company is confident that we should reach the AUM guidance that we've given.
- Deekshant:** No. So just clarity is that, of course, the credit cost right now we will be seen a little higher, but at some point, we are going to be going back to the downward trajectory, so does this sort of give us the confidence to now sort of start pushing the accelerator. because 20% is what we should be -- at least 20% is what we should be doing in the H2 to get to our numbers.
- Ganesh Narayanan:** Yes. Yes. That's why I'm saying. Even if you look at Q2, right, so Q2 typically is not a great quarter. Both Q1 and Q2 this year, we've done reasonably well, right? If you look at year-on-year comparison, we are saying that we are 30% up in Q2. Q3, Q4 typically are our strongest quarters.
- And with the field situation improving, we should see AUM growth as guided. So that means we are talking about 20% in H2 to reach the guidance that we have given, and we are confident of doing that. I hope I answered your question.
- Deekshant:** Yes, yes, 100%, sir. But any sort of thought process when we will start seeing this credit cost reasonably start coming down? Is it going to be in Q4 onwards?

Ganesh Narayanan: See for us, right now, like we said in Q2, it has been range bound, right? So, October, again, you have large festivals. So, November, December, we are hoping that we should start seeing some downward trajectory.

And we'll have to wait and watch. At least the indicators right now say us that November, December should be a good month to start expecting better recovery trends from a new PAR accretion perspective.

Moderator: Our next question is from the line of Shreepal Doshi from Equirus.

Shreepal Doshi: My first question was on the pricing side. So since, let's say, we are seeing rising PD and also the overall ECL, are we trying to also take the interest rate upward because, I mean, all of us have moved to risk-based pricing, at least in the MFI space as well. Would we see that sort of a trend playing out? And if it will, then by how many basis points or percentages would we see that improvement in, let's say, second half of FY '25 / FY'26 and then in FY'27?

Ganesh Narayanan: Right. So given all the points that we've discussed so far and the visibility that the credit cost is going to be elevated in the last pricing review committee, the company has increased the pricing for group loan by around 75 basis points.

Shreepal Doshi: Okay. And -- so this is already incorporating the incremental rise that we will see in the LGDs and the risk that we see? Or will we further take more increase?

Ganesh Narayanan: See, pricing is reviewed every quarter, right? So, at this point of time, basis the visibility and data point, the pricing has been moved up by 75 basis points. And as the situation improves or depending on data points, every quarter, we do review pricing. But I think given a combination of the pricing increase that we've already taken it and the reduction of cost of borrowing we expect, I think this is good enough for us to take care of this increase in credit cost that we predict.

Shreepal Doshi: Got it. Got it. And sir, the second question was, so if we look at the entire issue this time around that came up in the industry was pertaining to overleveraging and that has been answered with the help of the guardrails. However, one issue was also pertaining to duplication of ID proofs, right? So has there been any initiative or measures taken by us or by industry to overcome that problem?

Ganesh Narayanan: See majority of the industry has now moved to voter ID validation with whatever solution which is possible, right? And while voter ID duplication is a problem, it is not, in my view, a very large percentage to talk about. It is a very low number. But combined with both field checks practices as well as your validation options already available today, this is controllable to a large extent.

Shreepal Doshi: Okay. Okay. And sir, just the last question was on some of the state-wise colour. There is an increase in delinquency visible in Maharashtra and Bihar. But are we seeing, which are the other states where we believe there has been a rise in delinquency in, let's say, September and then early October, apart from these 2 states?

- Ganesh Narayanan:** Except for Madhya Pradesh and Maharashtra, we don't see any impact at this point of time. Other things are range bound, right? To a certain extent, yes, Bihar has also gone up. But I think MP, Maharashtra largely due to rains, MP partially due to rains and also probably a trend that is recent. We are seeing a slight uptick, but we'll have to watch it. We think it will get corrected shortly.
- Shreepal Doshi:** Got it, sir. Got it. And sir, just on the growth front, I mean, I think the last quarter, the guidance slide reflected a growth guidance of almost 14% to 18%. So, is it fair to assume that it will be at the lower end of the bracket?
- Ganesh Narayanan:** Yes, we should assume at the lower end of the bracket.
- Moderator:** Our next question is from the line of Shweta Daptardar from Elara.
- Shweta Daptardar:** Sir, correct me if I'm wrong. So, don't you think next year, your growth per say should exceed 20% so as to release that kind of extra offsetting factor to achieve that 4% ROA from current 1.8% because like Nilesh mentioned, there might be a max little over 100 bps relief from yields and cost of funds improvement. I'm just trying to wrap my head around these calculations. Sorry for harping on it.
- Ganesh Narayanan:** You're talking about growth, right?
- Shweta Daptardar:** Yes. So, in my rough calculation...Yes.
- Ganesh Narayanan:** The current indicators tell us we should be in the range of around 20% plus, right? You also have to take into account that there are guardrails now and there are higher rejections. I think an accelerated growth rate, I think, is quite difficult at this point of time to predict. But we'll have to watch for some time. So at this point of time, we maintain that we should be in the range of around 20% plus.
- Shweta Daptardar:** Okay. So then in that scenario, even if I were to assume on a roughly little closer to 20% kind of growth, still that 4% ROA looks slightly daunting for next year.
- Nilesh Dalvi:** But Shweta, how are you trying to link this to the growth aspect?
- Shweta Daptardar:** Yes, because growth will also give you that lower opex to assets number. And that has to -- so both these factors has to completely offset the credit cost of 4.5% to achieve that 4% plus ROA, which you're guiding for FY'27, right? So I'm still wrapping my head around that whole math, yes.
- Nilesh Dalvi:** The opex-related factor will play in the fag end of FY'27 because maybe this year, we end at somewhere around 4.8% - 4.9%. And next year, we start at that and end somewhere at 4.6% - 4.7%. Opex, we may see around 20 bps of benefit and balance coming from the pricing and the borrowing cost.
- And even when it comes to yield, the entire benefit is not because of pricing. There will also be benefit coming from lower interest reversals because this year, the proportion of interest reversals is much higher compared to the normal levels.

Shweta Daptardar: Okay. Okay. That's fairly answered. My second question is, so given the fact that now the group lending model has slightly destabilized and our retail finance share has also climbed to over 10% plus. What is the strategy now to grow the non-group lending portfolio? And where do you see this mix stacking up so as to contribute materially to growth going forward?

Nilesh Dalvi: See, Shweta, we will see continued momentum in retail finance because one thing is obviously now since the business is settling down at microfinance branches. So it gives us a good time to launch the retail finance products from more and more microfinance branches. Even in second quarter, we have launched the individual business loans from almost additional 150 branches. And there is a pipeline of another 200 branches in third and fourth quarter. And gradually, this will keep increasing because overall, we have almost close to 2,000 microfinance branches. And today, only 800 branches, we have started doing the individual business loans, 2-wheeler loans, etcetera. And gradually, we are also focusing on starting the mortgage products selectively through the microfinance branches in addition to the retail finance branches what we have.

While there are stand-alone 116 retail finance branches, which will purely be focusing on mortgage, but we will also be leveraging our microfinance branches for offering retail finance products. So obviously, as we scale these products across more and more microfinance branches, we'll get that delta. And we should be on track to whatever guidance we have kept. We are looking for maybe 15% kind of retail finance. We should be moving towards that. Obviously, initially, you will see more of unsecured share in that proportion, but unsecured loans typically run down faster. Over a period of time as the mortgage book catches up, then we will see a more balance between secured and unsecured products.

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

Rajiv Mehta: What is the PAR 15 accretion rate for the loans disbursed in the recent quarters? I mean, in the last 3 quarters, post the implementation of all the guardrails, you would have done loan disbursements of Rs. 15,000 crore, Rs. 16,000 crore on that portfolio. Is the PAR 15 accretion rate not better than the overall portfolio reported number?

Ganesh Narayanan: So, the recent disbursements are showing better performance from an MOB perspective as well as roll forward, if that's what you're asking. So, the recent disbursements are definitely showing much better trend. And we will have to see further improvement, as I said, if we have better performances in November, December, Jan, then it can improve. Right now, I think between Q1 and Q2 is kind of range bound.

Rajiv Mehta: No, because a lot of players are giving us two collection efficiencies for the new portfolio and for the legacy portfolio, and they are saying that the blended number will improve because the new portfolio collection efficiency, there the accretion rates are much better. I'm just thinking from us also, while we are assuming that PAR 15 accretion rate will remain where it is right now. But mathematically, as the new portfolio becomes a larger portfolio, should it not directionally improve?

Ganesh Narayanan: It should. It should directionally improve. It has improved compared to the peak, right? So all that I'm saying is that between Q1 and Q2, there is not a significant improvement. However, the

new disbursements, as you say, as we age a little more, we'll have better visibility, at least it's trending towards betterment.

Rajiv Mehta:

Okay. And on the new borrower addition, I think that has been pretty stable. But I was of the view that maybe it should actually improve with the borrower leverage having corrected a lot across the system and even for your borrowers, when I look at the metrics, the borrower leverage has come down significantly.

And second is also the fact that some of the large competition in the market have taken a back step from the business for the time being. So then how do we see this new borrower addition run rate changing? And hence, how should it kind of move up your overall growth rate?

Ganesh Narayanan:

See, ideally, we would like to add close to around 1 lakh customers every month, right? So we are right now trending around 70,000 to 75,000. And we should expect it to improve as the ground situations improve further. So that's where we are. We are hoping to inch this up, but we'll have to wait and watch.

Rajiv Mehta:

Yes, Ganesh, I just have one last clarification. On this, there is a footnote saying that about Rs. 285 crore of group loan borrowers were reclassified into retail finance, on reassessment of their household income and which was more than Rs. 3 lakh.

And then they were given individual loans. So, was this household income reassessment is being done when a vintage group loan borrower is coming up for a renewal and asking for a higher ticket loan and that's when you evaluate him for an individual loan? And these reassessments will keep on happening?

Ganesh Narayanan:

Yes. When a customer asks for a new loan, we need to reassess income, right? There is a certain profile of vintage customers, where we are seeing the income has gone up, but there is also an existing GL loan running, right? The incremental loan that we are giving to them is classified as retail finance. And once the GL loan runs down, any further lending to this customer will become a full play retail finance.

Rajiv Mehta:

Understood. So this can happen every quarter also, right? I mean, as per as the vintage borrower...

Ganesh Narayanan:

It will happen on a continuous basis, yes.

Moderator:

Our next question comes from the line of Ashlesh from Kotak.

Ashlesh:

I have a few questions. I'll just post them upfront. Firstly, are you still seeing rejections in your group loans for your existing borrowers because of the existing guardrails? That is one. Secondly, if I look at your disbursements, they declined sequentially quarter-on-quarter. Why was that the case?

Because June is typically a seasonally weak quarter, plus you also had the three-lender cap getting implemented from April onwards. And do you expect the disbursement trend to materially improve from here on?

And lastly, if I look at the AUM growth in Madhya Pradesh, that has remained steady at 25% Y-o-Y for the last 3, 4 quarters. And this is a little disproportionate to the overall AUM growth. So why is that the case? That was the last question.

Ganesh Narayanan: Okay. So, the first question, yes, there is rejection due to guardrails on a continuous basis. Like I said, for the question where we were asked about why not more growth and why not more customers, the rejection rates are quite strong due to guardrails. And hence, you will have to work harder to get new customers as well as disburse even to our existing customers, right? So that is the first part.

Second part, seasonally, yes, Q1 is weak, but this year, we did have the best Q1. Once again, Q2, again, because of the COVID impact, right? So we always have a lower base for renewals. In spite of that, we did quite well in Q2. And if you see year-on-year basis, we are upwards of 30%. Q3, Q4 is typically a growth quarter, and we expect it to be much better than Q2 disbursement.

AUM growth in MP is because you're organically growing there, right? So, it is a smaller base compared to our core geographies. And there was a lull post COVID and which is coming back now, As you gain more vintage in a particular geography, your AUM keeps going up. So, there is no particular reason or there is no spike that is not organic in nature.

Ashlesh: Understood. Just one follow-up. If I look at Bihar, that portfolio is much smaller for you, but that portfolio has been declining. That's what I'm trying to understand.

Ganesh Narayanan: Bihar you know that last year, we reported there are issues internally with respect to more attrition and in specific pockets of Bihar. And we said that this is more internal, and we will correct it. So, if you see the correction with respect to performance in collections, it's significant in Bihar over the past few quarters. When you are taking such actions to kind of take control of a situation, typically, your growth rate is not normal, right? Hence, you may not see a significant growth, but the performance of the portfolio has been significantly better. Once things continue to stay the way it is, we will see growth post probably this quarter.

Moderator: Our next question comes from the line of Prithviraj Patil from Investec.

Prithviraj Patil: I had a question on the percentage of portfolio that's under CGFMU and if there is any?

Ganesh Narayanan: We don't have anything at this point of time.

Prithviraj Patil: Okay. Also, another follow-up question. Is there any stress in the tariff impacted regions or in the Bihar state due to the elections?

Ganesh Narayanan: Say that again? Can you explain your question again?

Prithviraj Patil: So, after the implementation of the tariff, are we seeing any stress in those particular geographies like Bihar...

Ganesh Narayanan: Okay. No, no. We don't see any significant impact because of tariff in the pockets where we operate. And again, due to elections in Bihar, there is no impact at this point of time.

- Moderator:** Our next question comes from the line of Aravind Ravichandran from Sundaram Alternates.
- Aravind R.:** Just one clarification. You mentioned about onetime nature of ECL, but the data is going to be driven by 36-month ruling, shouldn't it affect, let's say, FY'27 and FY'28 ECL guidance also.
- Nilesh Dalvi:** We need to see. Whatever ECL levels we reach in FY'27, they will only increase in FY'28 if FY'27 also stays elevated. If FY'27, we see stabilization, so obviously, the ECL rates will also settle at the FY'27 level. It purely depends upon the rolling data. The data pertaining to FY'26 will already be part of the ECL computations in the next year.
- Aravind R.:** Okay. So only next year should be having that impact, as you mentioned, not '28. I mean if data -- I mean if things improve?
- Nilesh Dalvi:** Yes.
- Moderator:** Our next question comes from the line of Hitaindra Pradhan from Maximal Capital.
- Hitaindra Pradhan:** Most of the questions have been answered. Just one bit on the insurance part. So, I think a lot in the industry, a lot of players are moving towards sort of getting this cover because also the premiums are probably attractive compared to the normalized credit cost as of now. So, what is the thinking that we have, if you can elaborate a little bit more on not getting this insurance cover?
- Ganesh Narayanan:** Are you talking about CGFMU, right?
- Hitaindra Pradhan:** CGFMU, yes.
- Ganesh Narayanan:** Okay. So, we're currently exploring it. This year, we will take a certain part of our disbursements covered. So far, we've not taken it. But this year, we may take some of these options available to see how this pans out. And if we think it is meaningful and the experience is favourable, we may scale it up going forward. But right now, we are trying to see a certain volume to see how this works and whether it helps us.
- Hitaindra Pradhan:** Okay. Okay. And sir, secondly, on the question of the growth, which is you said 20% for FY'27. Now in the past also, like whenever the industry has sort of flexed its muscles in terms of growing fast, we have had an episode. So, being the market leaders, what kind of normalized growth do you see and will growing at 20% eventually again lead to sort of problems in the industry?
- Ganesh Narayanan:** See, yes, I got your question. What you have to see when we guide a growth of 20% is also the fact that we've already moderated our growth percentages for microfinance, right? Even in the medium term, we are saying that the microfinance growth will continue to be in early teens, and the rest of the growth will come from retail finance. So, when we say 20%, it's a combination of both retail finance in GL and group loans, like I said, will be probably in the early teens.
- Hitaindra Pradhan:** Okay. And what would be the yield difference between, let's say, your retail finance as it's becoming a bigger part of your portfolio versus the microfinance portfolio, which might be at 21% to 22%?

- Ganesh Narayanan:** Right. Majority of the retail finance portfolio does not have an impact on the yield, because it is similar in nature. Why? it is range bound, but the average portfolio yield is similar to microfinance, except for home loans, which is in the range of around 16% to 17%. And other than that, there is no other product that kind of dilutes our returns.
- Moderator:** In the interest of the time, that was the last question. I now hand the conference over to the management for the closing comments.
- Ganesh Narayanan:** Thank you all for your time and interest in our business performance. The company is looking at a very strong performance in Q3 / Q4 compared to our Q1 and Q2 performance. We have demonstrated this continuously over the past few quarters. And we are hopeful of kind of coming back with a good set of numbers in Q3 FY'27. Thank you so much for your time.
- Moderator:** Thank you, sir. On behalf of Motilal Oswal Financial Services Limited and CreditAccess Grameen, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.