"CreditAccess Grameen Limited

Q2 FY27 Earnings Conference Call"

October 22, 2026

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Moderator: Ladies and gentlemen, good day, and welcome to the CreditAccess Grameen Limited Q2 FY27 Earnings Conference Call hosted by Motilal Oswal Financial Services Limited.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero 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. Thank you, and over to you, sir.

Abhijit Tibrewal: Thank you, Dorwin. Good evening, everyone. I am 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 their Q2 FY27 earnings.

To discuss the company's earnings, I'm 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 and Strategy. 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. Narayanan for his opening remarks, post which we will open the floor for a Q&A. With that, over to you, sir.

Ganesh Narayanan: Thank you, Abhijit. A very good evening, everyone, and a very warm welcome to discuss our second quarter and first half of FY27 business performance.

We reported our highest quarterly profit of INR 502 Crore in this quarter, having grown fivefold over the past 5 years. Current financial year marks a clear turnaround, recording INR 995 Crore PAT in the first half as against INR 778 Crore PAT during the previous financial year. Our H1 ROA stood at 5.9% and ROE stood at 23.8%. We are delivering record profitability while remaining amongst the most competitively priced lenders across our product segments. Our lending franchise today spans across Group Loans, Individual Business Loans, secured business loans, affordable housing loans and 2-wheeler finance, with growth, margins and asset quality all moving in the right direction.

Our AUM grew 19.5% YoY and 2.1% QoQ to INR 30,946 Crore. Disbursements stood at INR 6,355 Crore, up 19.4% YoY and 4.1% QoQ, taking H1 disbursements to INR 12,461 Crore. We added 2.3 Lakh new borrowers, of which 35% were new-to-credit, taking our H1 additions to 4.9 Lakh customers. We also opened 60 new branches during the quarter, expanding our network to 2,326 branches across 460 districts. Digital collections rose to 26.3% versus 18.1% a year ago.

When we began building our retail franchise, our thesis was very simple. The customers we've served for years would need more than a Group Loan as their economic profile improves and financing needs expand. That thesis continues to play out at scale with regulatory support in place. Of the ~45 Lakh borrower base, 15% or 6.8 Lakh borrowers belong to Retail Finance.

Retail Finance AUM grew to INR 7,200 Crore, now 23.3% of the total AUM, up from 20.6% in Q1 FY27. Within this, our secured book comprising of Secured Business Loans, Affordable Housing Loans and 2-Wheeler Loans grew 60.9% YoY to INR 695 Crore. Our mortgage presence now spans across 300 GL and 128 Retail Finance branches with 2-wheeler loans offered through 950-plus Group Loan branches. Our 2-Wheeler Loan book witnessed strong traction, having crossed INR 60 Crore compared to INR 20 Crore in Q1. Further, our ability to meet evolving credit needs of our customers is also deepening their loyalty with borrower retention rates improving from 85% in FY26 to 88% in H1 FY27. Alongside, we are also strengthening our collection ability with a dedicated collection team comprising of 500-plus employees across operating geographies.

Our Group Loan portfolio stood at INR 23,746 Crore as of September 2026, a marginal decline of 2% from the start of FY27. This was on account of write-offs and graduation. Most of the INR 614 Crore portfolio written-off in H1 FY27 consisted of Group Loans. With write-offs normalizing and the seasonally stronger second half ahead and increase in customer acquisition during H2, we expect the Group Loan book growth to return to guided levels.

Commenting on our asset quality, we saw a temporary increase in monthly PAR accretion rate during August and September, driven by excess rainfall and flooding in certain regions of Bihar, UP, Chhattisgarh and Madhya Pradesh, along with seasonal festivities in a few geographies. However, despite this, our asset quality is back to pre-crisis levels at its best in the last 10 quarters.

Gross NPA stood at 1.79%, net NPA at 0.59% and PAR 90 plus at 1.11%, each improving sequentially. collection efficiency, excluding arrears, stood at 97.9% and X-Bucket collection efficiency for September stood at 99.71%. Credit cost for the quarter stood at INR 299 Crore or 0.99% on a non-annualized basis, of which 70 bps was driven by new PAR and 29 bps due to increasing ECL provisioning rates. We further strengthened our ECL provisioning at 3.31% after building a macroprudential buffer of 45 bps or INR 137 Crore. Our annualized H1 FY27 credit cost of 3.43% includes normative credit cost of 2.98% and 0.45% of macroprudential buffer, which is well within our guided range.

Commenting on our margins, we saw our NIM expand to 15.1% in Q2 from 14.4% in Q1, driven by lower interest reversals in Group Loan book, higher yielding individual loan book, stable cost of borrowing and higher capital push. Our cost-to-income ratio improved to 28.2% and PPOP grew 39.6% YoY and 11.2% QoQ to INR 970 Crore in Q2 FY27. Our marginal cost of borrowing stood at 9.1% in Q2 FY27, while average cost of borrowing was stable at 9.1%. Our capital position strengthened further with our capital adequacy at 26.9%, Tier 1 at 26.2% and total equity base of INR 8,919 Crore.

On the liability side, diversifying our funding mix, coupled with focus on long tenure funds remains our medium-term strategy. We signed USD 175 million ECB loan in October, syndicated by Standard Chartered Bank and DBS Bank. Despite global macroeconomic uncertainty and strong competition in the ECB market from FCNR (B) deposit mobilization by banks, the transaction received a strong response at a competitive pricing with financial institutions participating from across Asia, Middle East and Africa. We see this as a clear

reflection of international India continued confidence in our business model and governance standards. This is our fifth ECB syndication in the past 5 years. We also mobilized INR 940 Crore of domestic NCDs through private placement process in this financial year. ECBs and NCDs help us both in liability diversification as well as securing longer tenure of funding to strengthen our ALM.

Basis our strong H1 FY27 financial performance. We raised our profitability guidance for FY27, ROA of 5.2% to 5.8% versus 4% to 4.8% earlier and ROE of 21% to 24% versus 16% to 20% earlier. We retain our AUM growth guidance of 20% to 25%, supported by return to growth in Group Loan portfolio, coupled with continued momentum in Retail Finance.

We expect a NIM of 14.4% to 14.7% as against 12.8% to 13.2% guided earlier, driven by healthy asset quality, strong control over borrowing costs and a higher capital position even after factoring the 50-bps rate reduction applicable from October onwards. We are best placed to protect our NIMs in an evolving macroeconomic environment. Our risk-adjusted NIMs are currently at highest levels. Further, we can maintain our borrowing cost range bound, supported by diversified lender base, high-quality PSL book and judicious borrowing mix between repo, MCLR and fixed rates. Cost to income may range between 29% to 30% as operating costs remain well under control, despite inflationary trends.

We're maintaining our credit cost guidance of 3% to 4%, and it should comfortably cover for any volatility on account of evolving drought-related conditions in some operating geographies. We are seeing a few signs of drought-related challenges in October around certain pockets of Maharashtra, wherein the borrowers are requesting for additional time for repayment, including restructuring options. At this point of time, we're not seeing any on-ground impact in any other geographies. We also note that Northeast monsoons are expected to be normal, providing respite to Southern Peninsula India.

We'll focus on addressing the growing credit needs of our established seasoned customers with a proven track record and record of repayment across credit cycles through renewals, Group Loan servicing and targeted graduation to individual secured lending products. New customer acquisition will be a key growth driver with momentum expected to accelerate in H2.

To conclude, CA Grameen today is stronger, more diversified and more profitable than any point in its history, and we are executing with the discipline of a franchise that has been tested through cycles. As we enter the seasonally stronger second half, we do so with momentum in our business, strengthen our balance sheet and full confidence in delivering the guidance we've set out today.

We will now open the forum for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question comes from the line of Renish with ICICI. Please go ahead.

Renish: Just 2 things. So one on this 50-bps lending rate cut. When I look at the marginal cost of borrowing has gone up by almost 25 to 30 bps sequentially. So when there is a clear sign of

likely increase in cost of borrowing going ahead, what is the thought process behind trimming lending rate now?

I mean, I can understand the better profitability must be driving this, but when we see a broad kind of a scenario spanning out, you know, cost of borrowing are likely to go up, just wanted to understand why to consider lending rate cut at this stage, not waiting for maybe one more quarter?

Ganesh Narayanan: Renish, our current NIMs are at highest levels. And as you know, the lending rate is guided by our pricing policy, which takes into account several factors, including your credit cost, including your cost of borrowing as well as opex. Only lever today is if credit costs increase, that is when we can retain this pricing. Now the credit cost since we are publishing within the guided range and being driven by the pricing policy, this will be range bound. We have earlier also indicated we will do a 50-bps cut this quarter and probably 50-bps in the next quarter. The marginal cost of borrowing increase is slightly because of the mix of borrowing that we've taken right now and not necessarily indicating a higher increase point of time. We do acknowledge that the repo rates have gone up, but it will be gradually passed and that will go through.

If, for example, if the cost of borrowing goes up in next quarter, we have the right to reprice or not necessarily pass back the 50 bps that is planned for the next quarter also. I think it is something that we work on. But at this point of time, we need to pass this 50 bps to the customer given that the credit cost has held its ground.

Nilesh Dalvi: Renish, Nilesh here. So I'll add a couple of points. So firstly, on the borrowing cost, we do have borrowings from a wide range of lenders. So there are more than 80 lending institutions. And obviously, the borrowing rates will be within the range. That's where the blended rate what appears on the balance sheet is around 9%. So in second quarter, obviously, we did a couple of NCD transactions. We had a couple of longer tenure funds, which obviously will come at a slightly higher rate.

But at the same time, what we have to also look at is the loans what we are replacing. So like even in third quarter, we will see the marginal borrowing cost will be higher because we have done a USD 175 million ECB in month of October, which will come at a higher rate. But it will also replace the USD 200 million ECB, which is going to expire in the same month. And the new ECB what we have taken is at a lower rate compared to the previous ECB which is getting replaced. Now when I look at my borrowing for next 6 months, the amount what we are going to draw down at a similar rate of the amount what we are going to repay. So that's where we are of a view that our borrowing cost will stay in this 9.2% to 9.3% range till March.

While we do have certain repo-linked exposures, but around 30% of our borrowings are fixed. 40% are linked to MCLR and balance 30% are linked to the loans which are linked to repo, they reprice at different points in time. So it is not that it will immediately kind of add to the corporate borrowing and the MCLR-linked borrowings, typically, they react with much lag. And today, given the liquidity in the system, we have seen instances in a couple of banks that the MCLR has even come down. So from that perspective, as of now, we have visibility on the borrowing cost. And then as Ganesh said, if any upside risks on the cost of borrowing, then maybe every

quarter when we look at the lending rate, we can reprice it. From that perspective we have stability on the NIMs.

Renish: Got it. So we have flexibility to change our lending rate on a quarterly basis. I mean, that is board-approved?

Nilesh Dalvi: Yes. So like we had said previous quarter, that we will pass on 50 bps in third quarter, fourth quarter and next year's Q1. So now we have taken a 50 bps in the third quarter. Now the subsequent rating, lending rate decisions will depend upon how the credit cost is evolving and how the borrowing cost is evolving. There is no compulsion that we have to pass on. It purely depends on the adjusted NIM, what we want to retain. Today with the 14.5% to 15% NIMs. I mean on a H1 basis, our NIM is 14.7%. So on a risk-adjusted basis, the NIM is more than, I mean, it's closer to 11% to more than 11% and we would want to retain a risk adjusted NIM of 10% so that it allows us to achieve our targeted ROA of 4.5% to 5% on a steady-state basis. So from that perspective, we have enough flexibility to manage our NIMs aligning with the evolving credit cost as well.

Renish: Got it. Okay. All of these well understood. Thanks, Ganesh and Nilesh. Secondly, on this credit cost trajectory. So, obviously, credit costs will remain between 3% to 4% for sure, but I think in that, the lower credit cost in Q1 will also help us. So from a trend perspective, do you see Q3, Q4 credit cost inching up from Q2 levels? Because as you rightly mentioned, there are still some risk of drought-related regions and also maybe few of the largest players are also indicating the same thing. So what do you guys expect internally, the credit cost in Q3, Q4 should trend upwards and still remain within guided range or how one should look at the trends going ahead?

Ganesh Narayanan: Renish right now our expectation is that in Q3, it should probably inch up a little more. However, on an overall year basis, we still believe that we are significantly positioned to be within the guided range. So one is you also have festivals in October, November and certain drought-related situation emerging slowly in some districts of Maharashtra. Other than that, we don't see any risk right now. We'll have to wait for how things evolve. But we budgeted, we estimated a certain inching up, but it is more round within the guided range.

Nilesh Dalvi: For the first half, the credit cost run rate is 3%. So in the second half, even if it slightly inches up, maybe even if we go to 5% run rate, still for the full year, we should be within 4% and today like I said in my previous response the NIMs what we have they are well enough to cover 4% kind of a credit cost and still deliver the ROA what we are aiming for.

Renish: Correct. You are absolutely right, Nilesh. Broadly, what I just wanted to understand is that obviously FY27 will be taken care of, but if my credit cost trajectory continue to inch up, then at some point it might create a risk for FY28, wherein maybe we are expecting a credit cost to remain at 3%. I mean that is what we expect in a steady state basis. If my credit cost continues to inch up, then FY28 credit cost could remain more than 3%. Hence, I am more concerned about Q3, Q4 trajectory?

Ganesh Narayanan: I think we have to wait it out for Q3 and Q4. And we have to kind of position ourselves for next year, like we said because we have a significant pricing advantage. Any inching up in credit cost can definitely praise us what we're looking at.

Nilesh Dalvi: So Renish, if for example, if we take a scenario wherein the credit cost even stays elevated next year. In that case, we did not pass on any further price cuts. Like we had said in our previous calls, we have to pass on, say, 100 bps to 150 bps price cut, but we have done 50 bps. We can stop there. This is how the credit cost is falling. The profitability will be protected this year as well as next year.

Renish: Got it. And maybe can I squeeze one more last question.

Ganesh Narayanan: Yes go ahead.

Renish: Being the industry leader, what is your assessment in any broad kind of scenario historically how does the credit loss actually spread out? Obviously, interim, we can witness your portfolio going up. But ultimately what kind of credit losses you guys have witnessed in historical events when there is a drought situation?

Nilesh Dalvi: See, historically, we've not seen this kind of drought, number one. Historically, our data at least indicates that we've not had any significant impact because of drought. But now this year, we'll have to watch out because it's very widespread. Like I said, except for a few districts in Maharashtra, we not seeing stress anywhere, but we'll have to watch out for November and December. But the big plus is at least the Northeast monsoon is holding up. So that is also a good time to look out to and we'll have to watch out how things evolve.

Renish: Got it. So this is very helpful. Thank you and best of luck.

Moderator: Thank you. Our next question comes from the line of Shreya Shivani from Nomura.

Shreya Shivani: Thank you for the opportunity. I have 2 questions. First is, again, going back to the drought situation. So what are the operational changes that we are implementing at our branch level in Maharashtra, where we are seeing drought situations? Any change in incentive structure for the loan officers, any other process changes that you can highlight?

Also, do we have any kind of credit guarantee schemes on our book, which can protect us probably if certain portion of our book is impacted? That's my first question. Second question is the impact of the insurance regulation reform, any commentary, the conversations that you have, if you've had any conversations with the regulator, anything that you can share with us on that matter?

Ganesh Narayanan: See first on the drought situation right now, it is around a few districts in Maharashtra, especially in the Central part of Maharashtra, right? So there, probably we will not focus on sourcing new customers. We will focus on only our existing customers with respect to business. We strengthened our presence on the collection side with additional resources from across different teams. And that is going to help us in the short term. With respect to guarantee, we have not yet availed a guarantee for microfinance. There is some budgetary approval, which is pending.

Though we've applied for it, we expect it to open up in a week or two. So as and when it opens, we will start enrolling ourselves into that. That is where we are. But we do have a smaller amount of guarantee that we've initiated for individual lending through CGTMSE as well as BII.

And with respect to insurance, right now, I think it's too early. We've not had any direct discussions with regulators. However, we'll have to wait for the regulations to firm up. We believe that it will be slightly moderated from current levels. I'm not sure about what levels it could be. But the impact we see is around 25 bps to 30 bps on our ROA, which I think we are better placed than anywhere else in case we need to cover it through pricing to protect our ROAs.

Shreya Shivani: Right. And sir, just one follow-up on the credit life piece. So, when you attach the credit life on your policies, you are only covering the woman of the house, right?

Ganesh Narayanan: It's a choice of the customer, both for herself as well as for the husband. But our preferred coverage would be for both the man and the woman. There will be a few thousand customers probably who got both or any one or something else.

Shreya Shivani: Okay. All right. And sir, just a follow-up on the first bit in terms of the collection efforts that you are building in. While the drought situation has only been in Maharashtra, I believe in the second quarter, some of your northern states would have also been impacted by floods, etc. So what has been the trajectory of behavior with the customers in those states? I just want to know whether the floods have been more temporary in nature, the drought situation may stretch out.

Ganesh Narayanan: Yes. Typically, floods are temporary in nature. We come back within 2 to 3 weeks and which has been the scenario even this time.

Shreya Shivani: All right. So it's only Maharashtra. We don't have a big exposure in AP and Telangana, right?

Ganesh Narayanan: No.

Shreya Shivani: Okay, understood. Thank you and all the best.

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

Nidhesh Jain: Can you quantify the number of districts which are impacted or percentage of portfolio which is exposed to those districts where we are seeing drought impact?

Ganesh Narayanan: We are seeing currently when I say impact today, there are customers who are coming out and asking for time or restructuring solutions. This is something which is developing. We are seeing this around 6 districts, especially in central part of Maharashtra. That is where we are talking about, right?

Nidhesh Jain: And what portion of portfolio will be coming from these districts approximately?

Ganesh Narayanan: Right now, I think I don't have the data in hand. We can pick it up offline. But this is very early signs.

Nidhesh Jain: Sure. That's it from my side. Thank you.

Ganesh Narayanan: Thank you, Nidhesh.

Moderator: Thank you. Our next question comes from the line of Rajiv Mehta with YES Securities. Please go ahead.

Rajiv Mehta: Hi, good evening. Congrats on good numbers for the quarter. See, again, on a few of the states like UP, Bihar and MP, Tamil Nadu, we did see some inch up in PAR 15 accretion rate in September. Are you trying to imply that except for Maharashtra, everything else has kind of cooled off in October. In October, the PAR 15 accretion in these states has kind of come back to usual levels?

Ganesh Narayanan: Yes. So more or less the September spike was because of floods, like I said, as well as festivities in that particular month. Other than Maharashtra, everywhere else we are normal in this month.

Rajiv Mehta: So even Karnataka and Tamil Nadu, we haven't seen any spike as yet in October, right?

Ganesh Narayanan: No.

Rajiv Mehta: And when I look at your credit cost guidance for the second half, which is implied because first half has already occurred, then you see your write-offs will come down significantly because since you're just having INR 550 Crore of NPA at this point in time. So, write-off quantum will come down. So that credit cost will come down. And the PAR 15 accretion so far is not changing, except for a few districts of Maharashtra. Then are you also trying to build in some more strengthening of ECL provisions in the current guidance level? If you can quantify that? Is there a plan to take Stage 1 provision to a certain higher level from where we are?

Ganesh Narayanan: So Stage 1 currently is around 1.8%. We have already taken a macro buffer of around 45 bps. So that is something which we already have totaling to around INR 137 Crore. The provisioning may inch up by maybe 5 bps to 6 bps every quarter in Q3 and Q4. This is the new data point setting.

Rajiv Mehta: Okay. Yes, that is it from my side. Thank you.

Ganesh Narayanan: Thank you, Rajiv.

Rajiv Mehta: And sorry, can I just...

Moderator: You can go ahead sir.

Rajiv Mehta: Just one thing. I mean, I don't know whether if you can just clarify on the transaction, which the promoter is trying to do maybe some color, if any idea about where are we, if you have any idea about what is the status of it maybe from a time line point of view or the nature of your point of view.

Ganesh Narayanan: Right. See, as you know, currently, the promoters are in active discussion for a strategic investor as the whole group. That is where it is. And we should see some progress in the next couple of quarters. Anything else you're asking is what you're asking for.

Rajiv Mehta: Yes, yes. I mean sure. I mean it is also subject to a right price discovery, right? There is no time element to it. I mean that is a clarification, if you can wait.

Ganesh Narayanan: Yes.

Rajiv Mehta: Okay. Thank you.

Moderator: Thank you. Our next question comes from the line of Piran Engineer with CITIC Securities International. Please go ahead. Piran Engineer, your line has been unmuted. You may proceed with your question.

Piran Engineer: Yes. Hi. Am I audible now?

Moderator: Yes, you are. Please go ahead.

Piran Engineer: Yes. Is it better? Okay. So sorry, just before I get to my questions, a couple of clarifications. So, the strategic investor is at the HoldCo level, right, of the promoter?

Ganesh Narayanan: Yes.

Piran Engineer: Not at our level.

Ganesh Narayanan: No, not at our level.

Piran Engineer: Got it. And also, sir, did I hear you say correctly that, or maybe I didn't hear it correctly or didn't understand it correctly, but it will be like a 25 bps to 30 bps credit cost impact next quarter, higher credit costs?

Nilesh Dalvi: No, 25 bps to 30 bps was the insurance commission contribution to ROA.

Ganesh Narayanan: Yes, that's what. That was a comment on insurance in case the commissions drop to indicated draft guidance, then we could have an impact of 25-30 bps on our ROA.

Piran Engineer: Okay. Got it. Sir, then could you just quantify when you say next quarter, credit cost could inch up. So, broadly, can you give a sense of how much you think?

Ganesh Narayanan: Right now, what we are saying is that even if we budget a certain amount of increase because of the drought situation, we don't see it go beyond our guidance in this entire year. So right now, if you remove the provisions that is the buffer that we have 45 bps, we are at roughly around 3% credit cost. Including the buffer, we are at around 3.45%. And even if we see an inch in credit cost, we are not able to envisage a situation right now where our credit cost could cross our guidance. So, you should assume that it will be somewhere between 3.5% to 4%.

Piran Engineer: 3.5% to 4%. Okay. Got it. And sir, just firstly, now coming to my question, the way we should think about the interplay between pricing of loans and cost of funds and credit cost is that over a cycle, you want to achieve a 4% to 4.5% ROA. Is that a fair statement?

Nilesh Dalvi: So, Piran today, the way the pricing is structured is up to a certain credit cost, we can obviously price it. But obviously, it's not an unlimited flexibility to price. So like you must have seen last year in FY26 with a 7% credit cost, we did a 2.7% ROA. So typically, up to 4.5% to 5% credit cost, we can pass it on and we can still protect our ROAs of around 4.5% to 5%. But if a credit cost spikes beyond 5%, then obviously, we can't price it. So maybe up to that threshold, we can protect our ROAs in the range of 4.5% to 5%. So that's where I said today on a risk-adjusted basis with a 14.5% NIM, we can absorb a 4% to 4.5% credit cost and still do a 5% ROA.

Piran Engineer: Got it. And just secondly, can you talk a bit about your IGL book because it has grown really fast. Are you seeing similar delinquency trends there? And also, if you can clarify all these are existing customers who were never in Stage 2 in the past?

Ganesh Narayanan: So, I'm just clarifying. So, it is not IGL. It is Individual Business Loans.

Piran Engineer: Yes. Sorry, I meant Individual Loans.

Ganesh Narayanan: So this is basically a graduation product, right? So these are your high vintage customers with better credit profile as well as credit scores. For example, our prime product for graduation, which is Unnati has an average tenure of customers over 7 years and an average credit score of more than 730. And this book at the peak of the credit cycle in the last year as well as on a continuous basis, the PAR 30 has never crossed 3%.

Piran Engineer: Okay. And so even now it's fair to say that delinquencies in this book are much lower than the MFI book.

Ganesh Narayanan: It is much lower than the MFI.

Piran Engineer: Got it. Okay. That is it from my end. Thanks and wish you all the best.

Moderator: Thank you. Our next question comes from the line of Abhishek Murarka with HSBC. Please go ahead.

Abhishek Murarka: Hello, am I audible?

Ganesh Narayanan: Yes. Hi, Abhishek.

Abhishek Murarka: I have 3 quick questions. One is in terms of disbursements for micro players, we have seen a little bit of a slowdown or containment of this quarter. What are you observing on the ground? Is everybody sort of pulling back? And is that more pronounced in the states that are impacted? Is that still continuing or people are starting to disburse more? So just what are the dynamics right now in terms of the states that are impacted by the drought or the flood?

Ganesh Narayanan: You are talking about industry or are you talking about CreditAccess?

Abhishek Murarka: Industry. In your locations where you are, what is the competitive action currently undertaken?

Ganesh Narayanan: So what we have seen through the cycle, we can see that banks have significantly pulled back and MFIs have garnered better market share. That is a trend that is emerging. NBFCs have also garnered better market share. SFBs have contracted a little, but banks have significantly contracted on the microfinance side. Otherwise, I think it is business as usual. I do not see any contraction. In our case, because majority of the write-off in H1 was from, you will see the microfinance book inch up in Q3, Q4.

Abhishek Murarka: Yes. For you, I completely agree. And also the people who are disbursing, is it just 2 or 3 large NBFCs or MFIs or is it more broad-based?

Ganesh Narayanan: I think currently, as we start publishing, like I said, historically, the only reason probably growth is a little not visible is because of liquidity aspects to smaller NBFCs. The large ones continue to do normal business. But as more liquidity kicks in, I think you should start seeing growth. So that is where I see the challenge. Otherwise, I do not see any large player pulling back at this point.

Abhishek Murarka: Got it. Because I mean, if you think back to, say 2024, due to heat wave or whatever other triggers, basically when everybody pulled back, there was a credit crunch and that sort of led to a bit of a spiral. So you do not see that kind of a caution at a ground level.

Ganesh Narayanan: I do not see that kind of situation right now. And you may also have to take slightly different interpretation of microfinance growth going forward because now it is getting distributed between individual and microfinance. So this graduation is something that everybody is speaking. We will have to monitor both Individual Business Loans. And if at all, we have data at some point of time, how many customers have moved from microfinance into individual and hence, what is the drop, right? So in my view, like us, industry also will be range bound in microfinance growth, and you will see retail growth profit.

Abhishek Murarka: Perfect. And that brings me to IGL. So have you also taken any yield cuts in IGL products?

Ganesh Narayanan: Yes. So this 50 bps is across all our products.

Abhishek Murarka: Okay. Across all products.

Ganesh Narayanan: Except for mortgage and 2-wheeler.

Abhishek Murarka: Got it. And how long will it take for the yield cut to flow through into actual yield reduction? Will it take a couple of quarters at least to start showing up?

Nilesh Dalvi: 4 to 6 quarters.

Abhishek Murarka: So suffice to say your yield broadly remains where it is this quarter or maybe even go up next quarter because of the momentum of the bank book and then it starts coming down.

Nilesh Dalvi: Yes, yields have peaked out, Abhishek. In Q2, the yields have peaked out, but the decline will happen over 4 to 6 quarters. So like the 50 bps cut what we took, it will at least take 4 quarters for the entire 50 bps cut to flow in.

Abhishek Murarka: Of course, yes. And then next quarter, you take a 50 bps cut that will also take 4, so there is the overlapping effect. That is understandable.

Nilesh Dalvi: So the subsequent rate cuts Abhishek, the subsequent rate cuts will only happen if the credit cost hold at 3%. If there is any increase, then we may have to revisit.

Abhishek Murarka: Understood. Got it. Thanks so much. Those were my questions and all the best. Congrats for the quarter.

Moderator: Our next question comes from the line of Ashlesh Sonje with Kotak Securities.

Ashlesh Sonje: Hi team good evening. A few questions from my side. Firstly, just a clarification, the increase in PAR 15 plus accretion that we have seen in this quarter, especially in a few states like MP, that number is primarily due to the flood situation in those states. It has nothing to do with the drought situation thus far. Is that understanding correct?

Ganesh Narayanan: Yes, that's correct.

Ashlesh Sonje: Okay. Understood. Sir, 2 more questions. Firstly, the kind of disbursement demand that you are seeing today from the customers, has the demand for, let's say, smaller ticket loans gone up in the last few months? Or there is no such trend right now?

Ganesh Narayanan: There is no specific pattern I can relate to.

Ashlesh Sonje: Okay. Understood. Sir, and lastly, in your borrower base, when you look at the overall leverage of the borrower, not just for you, but across all MFI lenders, what proportion roughly would, what proportion of borrowers would have roughly hit the INR 2 Lakh limit of leverage?

Ganesh Narayanan: I do not have this data off hand. I can get back to you.

Ashlesh Sonje: Okay, sir. Perfect. Those are all the questions I had. Thank you very much.

Ganesh Narayanan: Many have hit the limit.

Moderator: Thank you. Our next question comes from the line of Shreepal Doshi with Equirus.

Shreepal Doshi: Hi, sir. Good evening and thank you for giving me the opportunity. My question was largely on, since you started acquiring new customers actively now, like what sort of a trend are we seeing in terms of the customers having exposure to gold loan as a category? Are we seeing that the newer customers that we are acquiring larger proportion of them have exposure to gold loan versus a trend that we were seeing probably 2 years back or 3 years back?

Ganesh Narayanan: See, right now, we did do some research on this data. Right now, what we are seeing is that it is stable at around 10-12% of our customers on a consistent basis. We are not seeing any upswing or lows at this point.

Shreepal Doshi: So this 10-12% is for the new customers that we acquire or the existing customers?

Ganesh Narayanan: On overall our overall customer base. I do not have a cut of new customers exposure to gold loan at this point of time. But because we study this every month, the trend is range. I do not see that, that is significantly inc.

Shreepal Doshi: So that is broadly a 10%, 12% versus what we had seen only two, 3 years back. So that is holding up.

Ganesh Narayanan: If I am able to understand your question right, why we do this research every month is also to see how the credit profiles are different for a pure microfinance customers as well as customers with retail exposure. And consistently for the last 12 to 14 months, we have seen that customers with retail exposure were far better than that of pure microfinance customer.

Shreepal Doshi: Got it. Sir, second question was largely towards FY28. How are we seeing that year shaping up in terms of growth? Because I believe margins, we will see moderation given our pricing strategy that we have. But overall loan growth as well as ROA trajectory, what is it that we are targeting?

Ganesh Narayanan: It should be similar in my view. But we may have to probably guide this towards Q4. But I do not see a reason why we should have any stress on any of the margins that we are publishing right now.

Shreepal Doshi: And growth also confident of holding it in the range of 20% to 25%?

Ganesh Narayanan: Yes. All the more today because you have a set of products that you picked up and you are accelerating all of this. Say, for example, mortgage, which used to be done out of 120 branches now. We are doing today right now around 428 branches. And we expect to scale up a few hundred branches every year as we gain more experience and train our employees. So growth will be a combination of microfinance and retail. Retail will grow faster. Microfinance, as we said in our strategic plan, could be range bound in the range of anywhere between 10% to 12%.

Shreepal Doshi: Got it. Thank you so much for answering my questions.

Moderator: Thank you. Our next question comes from the line of Anand Dama with Nuvama.

Anand Dama: Yes, thank you for the opportunity and congratulations for that great set of numbers. My question was about your borrower growth. That seems to be in single digit. Is it that you are not acquiring new customers? Is that the problem that you are seeing for the entire micro industry? Or is it that now you are focusing more on the average ticket size increase of the guards you can just explain how the borrower growth is going to be in the coming years? And what basically explains the borrower growth for now?

Ganesh Narayanan: So firstly, a lot of our efforts today is towards ensuring that Q3 and Q4 we start showing significant increase in number of customers. There's a lot of effort going in that, and that should

hopefully improve. And this is also a result of higher graduation that is happening. One side, you are acquiring customers. Second side, you are also graduating more customers into retail. And microfinance side, I think the momentum will start in the next 2 quarters. Yes, it's a little bit of lag, I agree. I am saying Q3 and Q4, you should start seeing us publish better numbers in customer acquisition.

Anand Dama: Okay. Because what's happening is that right now, you are focusing more on average ticket size or giving loan to the existing customers, and that's basically also keeping your opex to AUM on a lower side. And to some extent, your ROEs also look far more higher. But if you enter into a cycle where the borrower growth doesn't come in or if you go for a higher growth and your opex shoots up and then your credit cost also comes in, you will get into a situation where possibly ROE will come down faster than what one would have expected it to do.

Ganesh Narayanan: This is true. And in a certain way, in a certain angle, I agree with you. But what I am trying to indicate is that it is not that the focus on customer acquisition is not there. It's just that you have come out of very strong 2 years of credit cycle, it takes some time to catch up momentum. And hence, that is taking some time. Along with that, the company is also doing various other things with respect to graduating customers, new products, process technology, etcetera. So which I think is more or less streamlined today. And we are hoping that Q3 and Q4, we should actually see momentum in customers. Ideally, we would like to publish more than 1 Lakh customers every month, and that's the target that we are working on. We are right now around 80,000 customers per month.

Anand Dama: Yes. Look, I think most other guidance that you have given, I think you are overshooting, but I think the borrower growth and the AUM growth is where I think you are still undershooting.

Gururaj Rao: Anand, Gururaj here; even last 4 quarters, we have added close to 10 Lakh customers. Even in Q1, we added 2.5 Lakh customers. Q2, we added 2.3 Lakh customers. it is not showing in the overall borrower number because of the write-off what we do, the credit crisis we are just out. So most of the write-off has happened during last one year. So you won't see the borrower number going up because there is a natural attrition as well as the write-off impact on the number. But then starting from Q1 onwards, you can see little positive numbers coming in. In Q3 and Q4, it will be much more. So I think from next quarter onwards, you can see the borrower numbers also.

Ganesh Narayanan: Yes. See, also to keep in mind, we are working on 2 fronts now. One is that you are retaining your vintage customers longer. You are already seeing that our customer retention rates moved to 88% in H1 FY27. Second is that we wrote-off 3 Lakh customers in past 12 months. With write-off kind of clearing up subsequent quarters, you will see lesser customers down because of write-offs.

Anand Dama: And sir, the NPAs in the mortgage book seems to be now going up. Is it still within your tolerable level or like you feel that basically that is to some concern?

Ganesh Narayanan: It is still within our tolerable level. And we are quite bullish about this business at this point.

Anand Dama: Okay. So what's broadly tolerable level in the mortgage book in terms of NPAs?

Ganesh Narayanan: So, for us, industry is I think, roughly around, PAR 0 is around 5% to 8% of the book. But we've built a model where we currently budgeted around 2% credit cost in the mortgage. That is where we are working to.

Anand Dama: Okay. Sure. That's comforting. Thanks so much.

Moderator: Thank you. Our next question comes from the line of Sonal with Prescient Capital. Please go ahead.

Sonal Minhas: Hi, sir. This is Sonal Minhas from Prescient Capital. I hope I'm audible.

Moderator: You are audible, so you may proceed.

Sonal Minhas: Sure. I have just a small question. I'm on Slide 28, and I see the customers MFI exposure whereby CA Grameen plus 2 has gone down from 17% to 15% QoQ and so has plus 3. From a guardrail perspective or from a perspective of identifying new customers, is there a prudence there whereby we say that these kind of customers, will CA Grameen plus 3 will inch towards zero over time and we look for more higher quality customers?

Ganesh Narayanan: Can you repeat the question? I didn't get your question clearly.

Sonal Minhas: So, I'm on Slide number 28, sir.

Ganesh Narayanan: So, you are talking about the 3% Grameen plus 3? Yes.

Sonal Minhas: Yes. So, the number when I compare to last quarter, Grameen plus 2 and the plus 3 number has gone down basically. Plus 2 has actually gone down to. So just wanted to understand from an operations perspective, what are you doing to guardrail the quality and the vintage of customers? That's broader the sense of the question I wanted to understand.

Ganesh Narayanan: I think this will gradually keep dropping. I'm not sure that we go to zero. It may remain probably at a certain level because there is various issues because of which it can be Grameen plus 3 with respect to credit bureau, etc. But what I'm seeing, trajectory, it will continue to go down. Second, I don't think there's a specific strategy to target customers who don't have enough penetration. The deeper you go, you will get better. With our continuous approach, we've always been able to kind of get good new-to-credit customers. So that is an effort as we open more branches, more deeper, we will continue to get a mix of both experience as well as new-to-credit customers. New-to-credit customers in Q2 was around 35%.

Sonal Minhas: Got it, sir. And I think the earlier part, my second question is, sorry, is that as the earlier participant was saying that you were mentioning that banks have vacated the space, some NBFCs and small finance banks have also vacated the space. So is that giving you the confidence to finding new better unique customers and the growth that you basically envisioning over the course of next one year or so?

Ganesh Narayanan: I don't think banks have vacated at this space. They slowed down. But I feel all of this is temporary. Because with repeated quarterly performances, the rest of them would also inch up gradually. Temporarily, we do have an advantage of slightly lesser competition is how I put it.

Sonal Minhas: Got it, sir. That explains. Thank you.

Moderator: Thank you. Our next question comes from the line of Rishi Mody with Mody Advisory.

Rishi Mody: Yes. Hi. Am I audible?

Moderator: You are audible, sir. You may proceed.

Rishi Mody: Yes. So just harping on a few points here. First is your customer count, right? I'm seeing that a lot of it is going out through attrition, which means that maybe a good quality customers transferring to a lower lending rate lender in the MFI space, and while your, if I just do a rough calculation, your book has grown by 19%, your customer count has grown by 1%, which means customer concentration has grown by 18%. Just firstly, what steps are we taking to combat this attrition? Do we have any structural advantage? Or are we going to keep competing against lower rate lenders and lose customers in the future? Secondly, what risk management metrics have customer concentration risk checks at household level versus household level income, and do we have data being actually captured with higher accuracy for this? So that's my first question. I'll come to the second one after this.

Ganesh Narayanan: Okay. So let me take the first one. So, first point, we are one of the lowest priced lenders in the microfinance industry. Hence, moving from us to somebody else for a low interest rate is very unlikely. Number two, if you see our attrition, we've actually improved our retention from 85% in FY26 to 88% in H1 FY27. What could possibly happen, like I said, is because we have a lot of customers your customer count is dropping number one. Number two, customers would also be graduating because of which your customer count could be dropping. Third, would also be that customers are facing guardrails because of which we are not able to lend because the limits will exhaust. So that can also be one reason. So, if you see our entire strategy for the next 5 years is to ensure that the good quality customers are able to stay with us for a longer period of time by handholding them through graduation products, which means they enter through microfinance. And as they become better profile, then we graduate them to Individual Business Loans and Secured Business Loans. So even in those products that we picked up, be it 2-wheeler, mortgage, anything, we are quite competitive in the space from a pricing perspective. And in the last quarter, we've been able to bring around 90 customers from other mortgage players back into CA Grameen who were not with us earlier.

Pricing-wise, we are well placed. It's just a question of our Individual Lending. And like I said, because of heavier write-offs historically, the account also looks a little lower. But since our write-off is more or less done, now you should see acceleration of customer growth in the upcoming quarters.

Rishi Mody: So, when you represent this 6.75 Lakh accretion number of customer count, this also includes customers who you can't lend to because their borrowing limits are exceeded? Or what is this number defining. Because the 3 Lakh, I understand is people you don't want to lend to. What is the remaining 7 Lakh number, 6.75 Lakh number.

Ganesh Narayanan: Which means that customers who have left us also including customers who we've not been able to renew or roll over because of breach of guardrails or number of lenders and limits exceeding.

It could also have customers who don't want loan because that is also a pushing. Historically, when we analyze the attrition, we've seen that we used to have around 15% attrition. When we analyze that around 7- 7.5% move up. And that is the bucket we're trying to hold back. Other 7.5% either don't borrow or they have defaulted because of which they are not getting a loan and various other things.

Rishi Mody: Okay. Fine. Maybe just split it next time into people who actually moved out versus people who you aren't willing to lend more to. So we get a more clearer picture maybe where actually competition is affecting us versus where we're not getting affected. That's just one suggestion. It's possible to do that -- and if you could just come to the risk management piece sorry, I interrupted you all.

Ganesh Narayanan: So from a risk management perspective, we have a very well evolved policy where we don't cross greater than 2% in any district exposure. So that kind of restricts your per district exposure to not more than 2% of our AUM, number one. Number two, we also have lending limits, different districts with respect to per capita income, with respect to repayment rates in that particular district, etc. And we have product level controls for various products. Broadly customer level, so one is vintage level. If the customer has higher vintage, then you have higher limits. If the customer is lower vintage, you have lower limits.

Rishi Mody: No. So I understand what our general credit underwriting is. What I'm trying to understand is that now because we are growing our book on the existing customers that we are going towards more individual loans rather than the Group Loans, right? So people who were, borrowing INR 20,000, INR 10,000 are now getting affordable housing at INR 2 Lakh to INR 3 Lakh first is then their capability to repay. Second is…

Ganesh Narayanan: Okay. I got your question…

Rishi Mody: Like, household level debt we are able to calculate or not.

Ganesh Narayanan: Yes. So retail is completely different ballgame, okay. So when we graduate customers from microfinance to retail, underwriting is a lot more sharper. We have specific credit teams who visit and spend more than an hour to understand the profile of the customer, the cash flow, etc. Credit score has also come into play. We factor all of these aspects before we take a call on a larger credit. Like say, for example, our graduation path to Unnati loan, like I said, the average credit score there is 730. The average vintage that they spent with us is 7 years.

These are high-quality, long vintage customers who are able to demonstrate better cash flow without which they will not go up. So that is why though we have a 45 Lakh customer base, this will grow at a much smaller pace. It's not that everybody moves there. So we are looking at around 6% to 8% of our customers on a yearly basis getting converted into individual, but with a combination of secured and unsecured individuals. I hope your question has been answered.

Rishi Mody: I have some more, but let's move on to the second question that I had is this credit guarantee scheme, right? If you could just explain me the economics of it, how much does it cover on, in case of a default, and what is the cost, who bears the cost eventually – Like we're going to pass it on or we going to pay the cost from our own opex or credit cost? I'm just trying to understand.

Nilesh Dalvi: Rishi, currently, we don't have the guarantee scheme for microfinance…

Rishi Mody: Yes you are in the process, right? So what will it end up being any idea?

Nilesh Dalvi: Typically, under the CGFMU scheme, the annual premium cost is around 1.3% to 1.5% and it covers around 75% of the losses which you claim for and the total gap is 15% of the pool what you have insured.

Rishi Mody: Okay. And this, I'm assuming all SFBs and banks would also be applying. Ideally, like I'm trying to understand how the competitive scenario and credit underwriting will change once this comes into play and hence competition for us should increase, right, once. Yes.

Ganesh Narayanan: So this is already a significant portion of banks SFBs already covered their book through this scheme.

Rishi Mody: Okay. We haven't chosen to right now because -- we have better underwriting skills at this point. -- Okay, fine…

Ganesh Narayanan: A few thousand Crore in the next few years and scale it up based on the experience.

Rishi Mody: Okay, fine. Great that's it right for me right now. I will reach out to the IR team in case I need more clarification. Thank you guys.

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

Ganesh Narayanan: Thank you all for the trust and confidence you've had in CA Grameen. I think we've done 2 good quarters this year, and we are working towards ensuring the annual guidance we've given is met with, and we are fully confident that the next 2 quarters would also see strong performance from our side. Thank you so much.

Moderator: Thank you. On behalf of CreditAccess Grameen Limited and Motilal Oswal Financial Services Limited, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.