

May 18, 2022

**To**  
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**Mumbai- 400001**  
*Scrip code: 541770*

**National Stock Exchange of India Limited**  
**The Exchange Plaza**  
**Bandra Kurla Complex**  
**Bandra (East), Mumbai 400051**  
*Scrip code: CREDITACC*

Dear Sir/Madam,

**Sub.: Transcript of Q4 FY2022 Earnings Conference Call**

Please find the enclosed transcript of Q4 FY2022 Earnings Conference Call conducted on May 13, 2022, for your information and records.

The Audio recordings of the same is available on the website of the Company at <https://www.creditaccessgrameen.in/investor-relations/>.

Thanking you,

**Yours' Truly**  
**For CreditAccess Grameen Limited**



**M. J Mahadev Prakash**  
**Head – Compliance, Legal & Company Secretary**

*Enc.: As above*



# “CreditAccess Grameen Limited Q4 FY2022 Earnings Conference Call”

May 13, 2022



**ANALYST: MR. RENISH BHUVA - ICICI SECURITIES LIMITED**

**MANAGEMENT: MR. UDAYA KUMAR HEBBAR - MANAGING DIRECTOR  
AND CHIEF EXECUTIVE OFFICER – CREDITACCESS  
GRAMEEN LIMITED**

**MR. GANESH NARAYANAN - DEPUTY CHIEF EXECUTIVE  
OFFICER AND CHIEF BUSINESS OFFICER -  
CREDITACCESS GRAMEEN LIMITED**

**MR. BALAKRISHNA KAMATH – CHIEF FINANCIAL  
OFFICER - CREDITACCESS GRAMEEN LIMITED**

**MR. NILESH DALVI - HEAD, INVESTOR RELATIONS -  
CREDITACCESS GRAMEEN LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to CreditAccess Grameen Limited's Q4 FY2022 earnings conference call hosted by ICICI Securities 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 '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Renish Bhuva from ICICI Securities. Thank you and over to you Mr. Bhuva!

**Renish Bhuva:** Thanks, Nirav. Hello and good morning to everyone, welcome to the CreditAccess Grameen Q4 FY2022 earnings conference call. From the management team, we have with us today Mr. Udaya Kumar Hebbar, Managing Director and CEO, Mr. Ganesh Narayanan, Deputy CEO and Chief Business Officer, Mr. Balakrishna Kamath, CFO, and Mr. Nilesh Dalvi, Head, Investor Relations. I will now request Mr. Udaya Kumar to take us through the earnings highlight of Q4 and then we will open the floor for Q&A. Over to you Sir!

**Udaya Kumar Hebbar:** Thank you Renish. Good morning to everyone, our sincere thanks to all of you for joining us today morning to discuss our fourth quarter and FY2022 financial performance.

We have successfully navigated the year, achieving our annual performance guidance on the back of our robust operational controls and catering to pent-up demand in rural India. The rural economy is showing strong signs of rebound coupled with an expected good monsoon providing a boost to the fortunes.

Our consolidated gross loan portfolio grew by 22.2% Y-o-Y to Rs.16,599 Crores on the back of 38.2 lakh borrowers. The borrower base shows a 2.2% Y-o-Y decline due to 3.8 lakh borrowers written-off during FY2022. However, on a Q-o-Q basis, we have registered a 2.3% increase giving strong borrower addition traction in Q4 2022. We added roughly 3 lakh, new borrowers, in Q4 FY2022 on the back of an expanded branch network and stable operating environment.

Over the last 12 months, CA Grameen acquired 5.9 lakh borrowers of which 49% were outside the top three states showing a glimpse of our calibrated diversification efforts. In the same period, MMFL added over 1 lakh new borrowers of which 49% were outside Tamil Nadu. Overall disbursement grew largely in line with the portfolio growth on a Y-o-Y basis to Rs 5,792 Crores in Q4 FY2022 on a consolidated basis. MMFL is continuing to show a strong growth trajectory with 65% of the book being converted to the CA Grameen model at the end of March 2022 depicting superior asset quality. A bucket of products and services are being offered based on our 'credit line' concept with flexible repayment options, largely weekly and bi-weekly.

At CA Grameen, collection efficiency has largely stabilized reaching 96% excluding arrears while including arrear figure stood at 97% in March 2022. Excluding non-paying NPA customers, collection efficiency touched 99.5% for the same period. The collection efficiency at MMFL which constitutes 17% of our consolidated GLP has been consistently improving with 92% collection efficiency excluding arrears and 94% including arrears in March 2022 compared to 89% and 91% respectively in December 2021.

Collection efficiency for April has improved a further to 97% excluding and including arrears for CA Grameen and for Madura, it stood at 92% excluding arrears and 93% including arrears for the same period. The asset quality at CA Grameen has shown remarkable strength with the PAR 30 reducing from 5.6% in December 2021 to 3% in March 2022 whereas PAR 0 stands at just 3.6%. At MMFL, PAR 30 reduced from 11.1% in December 2021 to 7.5% in March 2022.

On a standalone basis, our NII grew by 10.4% Y-o-Y to Rs.446 Crores while NIM stood to that 11.5% for Q4 FY2022. Adjusting for the impact of interest income de-recognition, NIM would have been 12.5%. The cost to income ratio stood competitive at 30.4% while Opex to GLP saw a reduction at 4.5%. PPOP grew by 10.9% Y-o-Y to Rs.332 Crores. The credit cost was Rs.128.34 which also included the impact of a write-off of Rs.243 Crores. The credit cost was partially offset by Rs.22.84 bad debt recovery during the fourth quarter.

PAT for the fourth quarter was Rs.152.1 Crores leading to ROA of 4.1% and ROE of 15.6%. GNPA at 60 DPD reduced from 5.50% in December 2021 to 3.12% in March 2022 and NNPA reduced to 0.9% as on March 2022. PAR 90 which is standard across the company stands at 2.26%, our overall ECL stood at 3.19%.

On a consolidated basis, our NII grew by 11.4% Y-o-Y to 1653.2 Crores for FY2022. PPOP grew by 13.2% Y-o-Y to Rs.1,077.5 Crores. Credit cost declined 22.6% Y-o-Y to Rs.596.7 Crores compared to 771.4 a year ago. Bad debt recovery stood strong at Rs.74.1 Crores in FY2022 compared to 15.7 Crores in FY2021. PAT for FY2022 grew by 171.8% Y-o-Y to Rs.357.12 Crores resulting in the ROA of 2.2%. On a consolidated basis, our GNPA was 3.61% and NNPA was 1.31% as on March 2022. Liquidity continued to remain comfortable with total cash and cash equivalent to Rs.1,761.4 Crores amounting to 10.1% of total assets while capital adequacy remains strong with 22.8% at a consolidated level.

We will continue to tap newer geographies and cater to unserved and underserved markets as a part of our capital creation story at the bottom of the pyramid. A total of 211 branches have been opened during FY2022 of which about 91% came outside of the top three states while the overall branch network stood at 1,635 at the end of March 2022. The Q4 has been

a pivotal point in the Indian microfinance Industry with the awaited new microfinance guidelines announced by the Central Bank creating a level playing field. CA Grameen, being the industry leader is at the forefront to capture the massive opportunity with its deep rural focus, competitive interest rates, one of the highest customer retention, and strong governing standards. The microfinance market scope has widened with Rs.3 lakh household income providing a significant head start for market share expansion and increased retention of our higher vintage customers given our unique customer-centric business model. We are set on a very exciting journey of catapulting from serving one woman per household to meeting the financial requirements of the entire household while leveraging our microfinance system and increasing wallet share per household in line with our Vision 2025 of being the preferred financial partner for low-income households.

We take cognizance of the rising interest rate environment scenario and believe that we shall continue to remain competitive. The new microfinance guidelines announced by RBI allowing risk-based pricing will have a positive impact on loan pricing. Any limited increase in the cost of borrowings can be gradually passed on to the new disbursements partially offset by moderate margin compression in the existing loan portfolio. Further, compared to FY2022, FY2023 will witness lower interest reversal and lower negative carry impact on account of excess liquidity which will boost net interest margin. Based on our current estimated liability profile, we believe that even a 100 bps increase in benchmark rates and even if entirely passed on by the lenders would result in a 70-75 bps increase in average cost of borrowing by March 2023 compared to March 2022. An increase in the rate of floating rate borrowings will be partially offset by the decline in the share of higher-cost fixed-rate borrowings. Hence, we believe that our average cost of borrowing for FY2023 remains in the range of 9.3% to 9.4% on a consolidated basis in such a situation. Overall, we foresee NIMs improving by 50 to 60 bps in FY2023 compared to FY2022 thanks to risk-based pricing.

Assuming a stable operating environment, we look forward to achieving loan portfolio growth of 24% to 25% in FY2023. Our portfolio growth may remain muted during Q1 FY2023 as we implement the new RBI guidelines on the field and ensure required training on new processes and controls for all our employees. Also, many of the processes including reviewing multiple credit bureaus, calculating FOIR of the family, etc., will remain in manual process for a few months. However, we are confident of achieving the guidance growth for the financial year. We are anticipating a credit cost of 1.8% to 2% which will include the impact of residual write-offs on account of Covid during Q1 and Q2 for both CA Grameen and MMFL. Overall, we aim to achieve a ROA of 4% to 4.2% and an ROE of 16% to 18% in FY2023. Our integrated platform along with MMFL underpinned by our rural focus, customer-centric approach, strong liquidity, capital adequacy, highly

experienced management team, and strong balance sheet places us at the forefront to drive growth in the largest microfinance industry in the world.

With this brief note, I would like to open the floor to you for any questions. Thank you. Thank you for your patience.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Nikhil Rungta from Nippon Indian Mutual Fund. Please go ahead.

**Nikhil Rungta:** Sir, thanks for this opportunity, and congratulations on this great set of numbers. Two questions from my side. First, you have already given a slide on how Grameen is well placed in the rising interest rate scenario and you touched base upon that in your opening remark as well. But I just wanted to know historically, whenever Grameen has been in the rising interest rate scenario how has the portfolio performed?

**Udaya Kumar Hebbar:** In the rising interest scenario, our strength is to give the best price to our customers. If you observe, we have been able to price much better among the industry players for our customers which always helped us to retain our customers and manage our portfolio better. And we are able to give without modification of NIM actually. By and large, the NIM remains the same despite the high cost. So, for example in FY2018 and FY2019, there was a higher interest rate scenario our NIM used to be around 11.5% and 12.7%. We are able to manage better and we are able to price better. The competitive edge is always there being the largest player and the ability to negotiate with the bank for a better price which also helps us to price our customers and retain our customers and also build our portfolio.

**Nikhil Rungta:** And whatever impact we will see will be taken care of from rising yields can we say that.

**Udaya Kumar Hebbar:** Absolutely, we are not expecting any reduction in NIM on account of this. It will be only improved because we have a double impact one is, see our repayment obligations are high price and borrowing is at a lower price than the current average borrowing cost actually. That is why we expect that even if 75 bps increase or as far as 100 bps increase in the financial year, our actual increase may not be more than 20 to 30 bps. We have the ability to pass on the price and pass on the cost to customers. The third one is the ability to price based on risk, where risk is a little higher which will give us an additional advantage.

**Nikhil Rungta:** The second question is you have mentioned that provisioning in FY2023 could be in the range of 1.8% to 2% but in a normalized scenario, you have always highlighted that the sustainable provision should be around 1.4% to 1.5%. So, can we say that this additional 30

to 40 bps is because of the write-off of these pending things which are there and this will be taken care of in earlier quarters itself?

**Udaya Kumar Hebbar:** Correct. So, we need to recognize that we still have 1.3% NNPA as of March 2022. So, this will get written-off or the cost will have to be taken in the Q1 & Q2 FY2023. So that is why the average cost probably will go up to 1.8% to 2% including those costs.

**Nikhil Rungta:** And we will maintain the policy of NNPA at 0%.

**Udaya Kumar Hebbar:** Most probably yes because we will go by Ind AS route and ECL provisioning route. It all depends on how stage one, stage two, and stage three behaves. To a large extent, we will continue to recognize early recognition of risk which is going to be our character continuously.

**Nikhil Rungta:** Okay perfect Sir that is all from my side and best wishes for the future. Thank you.

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

**Kashyap Javeri:** Thank you so much and congratulations on a great set of numbers. Two questions from my side, if I look at assignments, we have gone a little slow this year. Consequently, the income from that part is also significantly lower versus last year. So, one what was the sort of thought process behind the assignments this year and how do we see direct assignment funding targets for next year? That is the first question. Secondly, in terms of our Gross stage 3 and Net stage 3, I cannot find actually the absolute numbers in the presentation so if you can probably help with that. The last question is on the Opex side. This year we have seen an Opex growth of overall about 20%. For the medium-term let us say the next two, or three years what would be the expense growth, and would there be any savings on the cost to income ratio.

**Udaya Kumar Hebbar:** So, DA is an instrument which we use as short-term funding only where there is a demand or request from our lender because we prefer borrowing term loans. We normally do not prefer to do assignments and reduce our balance sheet with sufficient and adequate capital adequacy. We wish to grow in the balance sheet not do DA. But sometimes, we have to oblige some lenders who require the DA that is where we do because it is only based on the demand from the bank. Otherwise, we prefer not to do DA. So, that is the first question based on demand. The gross stage may be Nilesh will give but before that, I will tell you, Opex will actually continue to go down based on the economy of operation. Maybe a bit of an exception we would see in the first half of this year while managing the new regulation. Maybe we will have some inefficiency because of the manual processes we have to follow.

But it will remain lower than the current year for next year. While we are already in the optimal Opex stage the reduction will not be very high, it will be lower. So, probably we took four years to bring it from 6% to 5% probably we will need another four years to take it from 5% to 4%. So, that is why when we are in the optimal level of Opex the changes then will not be very fast, it will be slow. But it will be a continuous improvement. Stage 3 asset actual numbers Nilesh can give.

**Nilesh Dalvi:** It is on slide #8 and slide #10. On slide #8, we have given for CA Grameen standalone where in the GNPA is 3.1% and net NPA is 0.9% and on slide #10 it is for Madura where the GNPA is 5.8% and NNPA is 3%.

**Kashyap Javeri:** Thank you.

**Moderator:** Thank you. The next question is from the line of Amarnath from the Ministry of Finance of Oman. Please go ahead.

**Amarnath Bhakat:** Sir considering your past performance and the current year GLP growth of 22.2% and all the favorable points you said so far, I am surprised why the future guidance for GLP is just 24%, 25% when everything has fallen into the place in the current year and maybe next year. Is it a conservative assumption or there is a head room for it?

**Udaya Kumar Hebbar:** Actually, as the base increases, the speed of the growth will not be exactly the same as when the base was small. So, it is actually a kind of over the industry growth. Probably, we would expect industry growth between 20% and 25% and we would actually match the industry growth or beat the industry growth. When they say you are small what do you say is right the growth number can be more and more. The ability of grow is linked to the ability to establish your infrastructure across geographies. The ability to recruit manpower and train for the quality operation implementation because microfinance is not just distributing money, it is a collection business. We need to have the right kind of employees, infrastructure, and the right kind of employee training. So, we need to be very careful in choosing the geography, choosing the right people, and grow. So, I definitely feel that 22% to 25% is reasonably good growth, it is not conservative. It is a well thought growth.

**Amarnath Bhakat:** What I am trying to say that in the last two years because of this corona and COVID, we keep on increasing our infrastructure. That infrastructure part is good that we keep on increasing but because of the outside environmental situation we were not able to grow our book and that risk was there in the market. So, we were conservative in the last one and half years. Now all those cumulative impacts of whatever you have done are supposed to flow back quite nicely in the next two, or three years.



**Udaya Kumar Hebbar:** Happy to have that but for FY2020-2021 we did not add the branches probably you missed that. Because of the COVID year, we have not added any branches. Only last year, 2021-2022 we added branches. That is one, two as I explained in my opening remarks Q1 will be muted growth because of the implementation of new regulations. Probably, we will really get only three quarters to grow with the speed we estimated and it is a well-thought process.

**Amarnath Bhakat:** Second question relating to fuel this kind of growth assuming 25% say for next two, three years the current level of capital adequacy what you have. Would it be enough or do we need to have some kind of a capital raise? Second, the associated question is, say for example management decides that we want to grow more than 25% because the market is giving that opportunity. Many of the small people in the market either have vanished or they have consolidated here and there. So, the bigger player like you will always have a higher opportunity especially as the business and economies open up and the demand for microfinance loans will be hugely supported by the RBI new guidelines. So, I am just trying to understand whether the current level though our capital adequacy is currently quite high. Will it be enough or within two, three years or maybe one, two year down the line we need to raise capital?

**Udaya Kumar Hebbar:** We might raise capital but not immediately. Probably as I said maybe one to two years down probably we need capital at least because we want to continue to maintain adequacy of more than 20 percent. With that context, we might have to go back to raising capital in the next six to seven quarters.

**Amarnath Bhakat:** And due to this new RBI guideline and since we are probably one of the lowest charging interest rates in the market at the moment, what is your best estimate of how much our yield can improve? I remember in the last call you have given though it was not confirmed at that point in time. But you had given a basis of around 150 bps of yield increase is possible if the RBI creates a level playing field and now they have done it. So, do you believe that you will be able to maintain that 150 bps that you have given last time or it will be more or less?

**Udaya Kumar Hebbar:** Actually, the increase in price will come gradually because this will be only with the new disbursements not in the old disbursements. Re-pricing is not possible in microfinance. However, we have already complied and published our interest rates as per the new policy and we already complied with everything based on the RBI requirements. We presume that 50-60 bps increase is possible for this financial year because the future disbursement only will get the benefit of the new pricing. On average, the pricing increased by 1.25% to 1.5% actually but your gain for the year would be about 50 to 70 bps. The full impact would get in the FY2023-2024.

**Moderator:** Thank you. The next participant is Nidhesh Jain from Investec. Please go ahead.

**Nidhesh Jain:** Thanks for the opportunity sir. Three points firstly what is the expectation of new customer acquisition for FY2023? Secondly, how should we think about the increase in the share of three-year tenor loans. I understand it is quite positive from portfolio run down and from customers monthly EMI outgo but are there any downside or risk to this strategy? And thirdly what is the yield strategy if you can explain, how are you deciding to which customer at what rate we will be offering the loan? These are the three questions.

**Udaya Kumar Hebbar:** Basically, the new customer acquisition will definitely go up which was not the case in last 2 years. I mean, while we acquired some customers, it is not really optimal. Definitely we would go a little high because branches are there and both companies will start acquiring customers which will help us. Probably we will not be able to give an exact number but it should be more than 8% to 10% Y-o-Y growth is what we are targeting for next financial year. That is our estimate and expectation. In the case of a three-year loan, probably it will go to about 25% to 30% of the total portfolio of microfinance. But as we acquire more customers that will come down. So, currently, it is squeezed because we are not acquiring many customers we have higher vintage customers sitting in the book which is why it is a little high. As we start acquiring more and more customers, this percentage will come down. But for the vintage customers, it is a good strategy there is a lesser EMI loan and then provide credit line products so that the products are available for them along with the continued three years loan. In the case of yield, it is a little difficult to say geography wise but what we did is high-risk geography we actually put a premium on higher pricing. Low and medium is medium pricing. So, overall the pricing will be between 18.75% to 21.5% which is actually fixed currently. For example, I will give you an example of the state Maharashtra which is probably a high risk at this point in time. This will actually be in the higher pricing geography which will be tracked every quarter or every half year which I can see and all components of the pricing. If there is a change, we will re-price again.

Also, we took one more strategy of benefiting from the long what we call long-standing claims/long vintage claims. What we have observed is that after three to four years of experience with us, we found the risk is coming down near to zero. So, for them actually we are charging 1% lesser than the normal price. So, overall it is about 1.25% to 1.5% higher NIM potential. But probably 50% will be encashed during this financial year and we will get the full benefit for the next financial year.

**Nidhesh Jain:** Just one clarification you mentioned 8% to 10% growth in active client base next year right.

**Udaya Kumar Hebbar:** Correct.

- Nidhesh Jain:** Thank you. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Digant Haria from Greenedge Wealth Services. Please go ahead.
- Digant Haria:** Sir, my question is a little more about these new guidelines. See in the past seven, or eight years we have always seen that any form of regulatory easing has eventually been misused by the industry in terms of over lending and just trying to not implement those things in the spirit. So, what are the risks that you see in these guidelines? Is it possible that maybe in the next one year we see over leveraging again and despite us being conservative, we have to face all the industry issues? So, any thoughts on this because I think it is now two months and there would be a lot of thought on the guidelines that would be really helpful. Thank you.
- Udaya Kumar Hebbar:** So, one side we have observed that there are leveraging issues for over lending. Unfortunately, the regulation was one-sided and only for one entity which is why we have seen some difficulty. So, that is the whole reason the industry went back to regulators asking for a common guideline. So, whereas SRO was able to control and be the same effect but on others, there was no really extended control by SRO. Whereas the banks or SFBs or NBFCs have different rules. So obviously there will be different regulations and different way of doing the business by different entities which definitely has been resolved by the current RBI guidelines. Now that every micro lender irrespective of the entity nature has to follow one common guideline and is also directly regulated by RBI and comes under the one common regulation, may be supported by SRO. We believe that this discrimination in terms of products or services might change might come to control. Having said that, we observed that in the last seven, or eight years there was no such over lending. If you see the data, there is only 4.5% of customers borrowed from more than three lenders actually as of December 2021. And only 7.5% of borrowers borrowed more than Rs.1 lakh. So, it is not that there is a huge miss selling or misgiving loans or so it is not. But some geographies and some districts might have had some issues. But otherwise, by and large, everybody followed the rules. There are small black ships anywhere in every business so I do not think that should be the key problem but yes overall 98%, 99% of people have followed the rules. Otherwise, let me give an example. So, MFIs can give loans up to Rs.1.25 lakh since 2015 but the average outstanding for borrowers is still around Rs. 40,000 only. So, it validates that MFIs have behaved very responsibly.
- Digant Haria:** Right Sir thank you for this. Sir second and my last question is because in last two years I have not really seen a lot of new disbursements or new borrower addition to the whole industry and to our fold also. So, do you think with MFIs again starting disbursements the

liquidity itself can also help rural India? So, if you can just give some flavor of what happened in the last two years versus what is the sentiment or the real cash flow situation in rural India? That is it from my side.

**Udaya Kumar Hebbar:** So, liquidity flow will always help to boost the rural economy and MFIs are at the forefront to do this. And see disbursement was not there only for few months in the last financial or previous year. For example, in the last financial year, for almost seven months people have disbursed money like CA Grameen and many others have done. We believe that there will be good customer additions and also good disbursements in the rural which will definitely help the bottom of the pyramid. With the liquidity available across, we should not see any difficulty to raise money. Of course, there is some sentiment about the cost of borrowing, yes that is there but we cannot help. Even if 1% increase or 2% increase for a borrower, actually they are paying just Rs.10 more per week so they do not mind too much about the price. This will be much, much lesser than their alternative money borrowing from money lenders. So that is why I do not think this will be a negative impact on them. However, there is some inflationary trend that is talked about. But our belief is that inflationary variation doesn't have a deep impact on the rural folks because they also generate the product that they sell. They buy the raw material and they also use it for consumption. In the buying and selling, they actually break the inflationary cost automatically so the net impact on them is less. To give an example to you, at least 55% of micro customers are in the dairy business. They take care of the cow and they sell milk. Probably their milk price would have gone up by Rs.2 to Rs.3. Probably some fodder prices would have gone up so the net impact is probably either positive or flat for them even though in the inflationary tendency. So, we do not see too many challenges. Given that we assume this year will be stable there will not be too many disturbances. I think the industry also will be able to establish themselves in the rural and the deep hinterland, which would help the bottom of the pyramid definitely.

**Digant Haria:** Thank you Sir.

**Moderator:** Thank you. The next question is from the line of Jay Mundra from B&K Securities. Please go ahead.

**Jay Mundra:** Sir, just one question. In your opening remarks, you had said that due to new guidelines there would be some slowdown in disbursement as you attune to the new guidelines. If you can elaborate on the same that what do you intend to do in terms of household assessment? Or if you can elaborate there as to what you need to do?

**Udaya Kumar Hebbar:** See regulation asks you to do an assessment of household income which we are doing already so that is not the problem. Actual problem is to digitize the data and data going to

the bureau and bureaus need to be ready for that. That is the first challenge. The second one is you also need to get the household liability or a borrowing side which again is dependent on the multiple bureaus, microfinance bureaus, and consumer bureaus. You need to get the total view of the family in terms of all borrowings by all members of the family from all bureaus to give you the one view about what is their total obligation against the household income. So, these are all currently not automated. It takes time and bureaus will take time to get a common view for you. Today what we have to do is we have to generate from individual bureaus and manually aggregate it, see what the obligation is, what is the income, and then what we can lend. So, much of that latency will be there for the first few months. That is one side of the bureau and the household. In the meantime, we also need to train our entire field staff on household income, its bureau, and its FOIR because they need to be aware of every fact to explain to our customers also. So, this all will be a challenge in the first few months to implement everything with the inefficiency due to some manual work with the bureau data and household data. That is why we said that the first quarter may be muted due to this kind of inefficiencies where we have to work.

**Jay Mundra:** And in this process in the interim, do you suspect that banks or universal banks may have slightly higher edge or all of the participants would have to readjust?

**Udaya Kumar Hebbar:** No actually this rule is for everybody. Everyone has to do this activity without that they cannot lend. In fact, the whole industry will be muted for the first quarter.

**Jay Mundra:** Understood Sir and you think the second quarter should normalize right? I mean it should not last beyond two, or three years.

**Udaya Kumar Hebbar:** Exactly.

**Jay Mundra:** Great Sir thank you and all the best.

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

**Renish Bhuva:** Hi! Sir, congrats on a great set of numbers. Just two questions from my side. So, one is on these revised regulations. So, of course it helps us in terms of pricing our loans much better than the earlier cycles. But if I look at the entire regulations impact on P&L, how do you see net-net it will impact us? Because our operating cost is likely to go up as now we have to get the comprehensive bureau report. So earlier we might be taking only a borrower's bureau report but now we have to take all household member's bureau reports. Then there is operational cost also involved because field staff has to spend a bit more time on the field assessing the income of the household. So, if I have to factor all these things how do you

see a ROA impact of this new regulation. I mean let us say there will be a margin accretion for sure but if I have to adjust for the higher operational cost how should it look like on the ROA.

**Udaya Kumar Hebbar:** Actually, it will be impacted initially for a few months when you do manually some of the things. When it is automated it would not be too costly. This increase will be priced anyway. What happens when you start pricing the customers, the pricing today is based on your cost of borrowing, cost of running the company, cost of operations, and cost of risk right. So, if your cost of borrowing and cost of operation goes up obviously the price will get passed on to that extent. So, we do not see that very high, but still we have opportunity to reprice every quarter. That is why the net, in case there is increase in cost of operation still it would not eat up the margin that is what our view. But in any case, we are not expecting the overall Opex will go up actually. Probably, it may remain muted for this year because every year we are seeing about 10% to 15% reduction. We may not see the reduction this year and from next year want to improve reduction. So, to that extent we do not see an impact on Opex because of the regulation.

**Renish Bhuva:** Got it helpful Sir. Secondly, again link to the regulation. So, now we are allowing to build the 25% of non-qualifying assets. So, do you see that this is the opportunity for all MFI players to diversify and build the secured book? And structurally the industry can move to a 50/50 if at all I mean assuming regulation will further allow us to build to 50% maybe over three to five years.

**Udaya Kumar Hebbar:** Yes, I am not sure about 50% because that we hope it will happen over a period of time. But this 25% helps the industry to stabilize to some extent. At least some percent of non-microfinance book or a secured book or stable book. So, this is the starting point maybe it takes two, three years for the people to really build it because all of us are expert in microfinance but not expert in other products. So, it needs time and you have to build it carefully. But in two to three years' time, we would see this resiliency of diversified books in the microfinance segment. So, it is a potential definitely.

**Renish Bhuva:** And what is our plan on that front?

**Udaya Kumar Hebbar:** We already told you about it. We already planned many secured products and unsecured products also. So, for graduated customer in terms of individual loans, two-wheelers, asset back loans like loan against property and also affordable homes. These are the three, four segments and also gold loans. These four, five type of products we are piloting right now. So, we would see good traction this year and then probably scaling up will be possible during next financial year. But some pilots already began some of them are in the process of

piloting. So, this year we will definitely see the pilots and ensure the right business model so that we can scale up next financial year.

**Renish Bhuva:** And just last follow-up on that. So, of course building up these retail assets will require a higher Opex because we need to have the collection team and the entire process has to be different from what we have been doing on the MFI side. So, even after factoring some of the up-front investments towards building retail assets where should net-net cost to assets settle in 2023-2024?

**Udaya Kumar Hebbar:** Yes, there would not be any increase in our operating cost because we have already acquired manpower, we have branches set up already and then we have made technology investments. So, we do not have any and we are not expecting any increase except hiring great people for the field. Other than that, we do not see any cost. But that is why overall impact on the cost will be very negligible here.

**Renish Bhuva:** And any thought on building up this separate collection team for retail assets?

**Udaya Kumar Hebbar:** As we move we will do definitely. So, as we move, even for microfinance loan we have a separate collection team now so obviously we will build for that also. As the portfolio builds up, we will start building that also.

**Renish Bhuva:** This is helpful Sir, thank you very much.

**Moderator:** Thank you. Next question is from the line of Abhishek Murarka from HSBC Bank Limited. Please go ahead.

**Abhishek Murarka:** Good morning Sir, thank you for taking my question. Sir two questions. One is what portion of MMFL's portfolio is now as per CREDAG rules, so underwriting rules? And why are the yields different between MMFL and CREDAG? Is there still a difference in the customer profile or is it because of some other computational reasons? So that was my first question I will come back to the second.

**Udaya Kumar Hebbar:** Well actually it is only the borrowing cost variation slightly because MMFL's borrowing cost is higher than CREDAG. But we are trying to make it lower. We have reduced almost 200 bps in last two years but we still have some gap between CREDAG and MMFL in terms of borrowing cost. And plus, this is probably because of derecognition is little high and Opex also little higher than us that is why this variation you could see.

**Abhishek Murarka:** And what portion of MMFL's portfolio is now underwritten as per CREDAG rules?

**Udaya Kumar Hebbar:** 65% now.

**Abhishek Murarka:** My second question is when you study this customer information to figure out the FOIR and how much headroom you have in terms of being able to give a loan, do you see any differences between states? Do you see the head room being higher in some state southern or western? So, any sort of comment or insight on that would be useful.

**Udaya Kumar Hebbar:** Maybe it is too early to give the insights. Probably in another one or two quarters time we would get significant numbers because we just made that rule. Hardly we disbursed less than 100 Crores in the new model so probably we will try to highlight next time if possible. Right now, we do not have specific insights.

**Moderator:** Thank you. The next question is from the line of Piran Engineer from CLSA India. Please go ahead.

**Piran Engineer:** Thanks for taking my question. Just had a couple of questions firstly in the last four, five quarters our customer count has not changed but our loan book is up 30%, 35%. Now next year also we are targeting 8-10% customer growth to 25% loan growth. So, over a two-year period basically customer leverage is up 50%. So, how comfortable are we really with this strategy here? And my second question is we have also started three-year tenure loans, have others in the industry also started this? Thanks.

**Udaya Kumar Hebbar:** One on the customer leveraging, it is more of a last two year issue where we are not able to add customers for many months. Whereas, we have to lend to the customer who are already finishing their loans. So, automatically based on the vintage they will get little higher loan than the earlier loan. So, our presentation clearly depicts the nature of increase of portfolio. Now we will clearly see that the CAGR increase of GLP per borrower is not more than 10% to 15% which is maintained continuously. And the increase in borrowing is only for the vintage customers. so non-vintage customers the portfolio per customer remains same probably that slide depicts clearly about how this increase happened.

You also said that our growth is 25% whereas customer acquisition maybe 10%. In microfinance the difference between customer growth and the portfolio growth should not be more than 25%. That means, if the growth of customer is 10% then portfolio growth cannot be more than 30% to 35%, that is the thumb rule actually. If you do more than that, it is leveraging. But if you see here, we are talking about 10% to 15% variation between these two which will not leverage the customers. And with the inflationary trend, the requirement of borrowing for the customer and vintage of the borrower which all adds to the customer portfolio. So, that is why we do not see any leveraging issue here. On the three-year loan, we really do not have good insight about others so far. Whereas, we started



the three-year loan almost one and a half years back so it is not new. We are only highlighting you actually because of the EMI load. Sometimes people assume that if the outstanding goes up whether that is a load on customers that is why it is clearly depicted here again. Even though the leveraging or the outstanding per borrower goes up, simultaneously tenure also goes up so that there is no load on the customer. The table what we made in the page #7 which clearly says the same loan of Rs.10,000 what is the EMI if it is one year, two year and three years so load on customer will be lesser. That is why there is no additional risk because of giving a higher loan for the higher vintage customer.

**Piran Engineer:** Okay Sir that answers my question. Thank you.

**Moderator:** Thank you. The next question is from the line of Alpesh Mehta from IIFL Securities. Please go ahead.

**Alpesh Mehta:** Thanks for taking my question and congrats for the good set of numbers. Just two questions, first is the comment about increase in ticket size. Most of the lenders are giving more or less a similar kind of comment that since last few years the customer acquisition has not been that great. And the vintage of the customer has increased. So, the question over here is till the time the bureau records are being updated is there a possibility that in the last six, eight months, the leveraging of the customers would have increased meaningfully? And simultaneously is that also one of the reasons why we are seeing some kind of an improvement in the asset quality at the system level? The second question is related to the other comprehensive income. So, there is almost a 100 Crores plus kind of a charge that will be classified to the P&L in the ensuing quarter. So, what is this regarding and lastly onto these margin stuff competitive intensity. While obviously RBI given us the leeway in terms of increasing the pricing, but would the competitive intensity restrict that and are we increasing the processing fees? Thank you.

**Udaya Kumar Hebbar:** I have to go back to one-by-one. The first is about last five, six months delay in updating the bureau. There is no delay in updating bureau by anybody. And then no MFI have lent without checking with the bureau or are reporting to bureau. So, the SRO ensures that every MFI reports on time and takes the bureau report before lending. Therefore, no chance of MFI or anybody lending without bureau data. The second one you said about Other Comprehensive income. Nilesh do have any insight?

**Nilesh Dalvi:** That is basically entry which is passed on in terms of fair valuation of the loan assets, the loan assets which we typically hold eligible for selling under the direct assignment transaction. So those assets will typically book in our balance sheet as fair value assets. And accordingly, as the interest rate changes those assets get revalued and the entries passed

through the OCI directly into the reserves. So last year you must have seen our lending rate was reducing every quarter and in fourth quarter it was almost at 19.05%. So, it is more of an accounting entry which needs to be made and under Ind AS we have to publish it.

**Alpesh Mehta:** Just the last question on that processing is we planning to increase it.

**Udaya Kumar Hebbar:** Considering that the cost of operation is slightly going up we had increased the costing by 27 bps so which takes care of all the expected increased opex in our lending.

**Alpesh Mehta:** Lastly Sir just about this bureau data, are the SFB data is also being updated regularly onto the bureau data?

**Udaya Kumar Hebbar:** Yes, SFBs, banks, NBFCs, MFIs all are providing data to bureau irrespective of everybody. So, bureau data is fully 100%.

**Moderator:** Thank you. The next question is from the line of Amarnath from Ministry of Finance of Oman. Please go ahead.

**Amarnath Bhakat:** Thank you for giving the opportunity Sir. Just one thing. The secured portfolio now you have a leeway to go up to 25%. Is there any custom plan that within how many years you will try to achieve up to that 25%? And associated with that, will the ROA and ROE profile be different for the secured part of the asset compared to your non-secured part of the asset.

**Udaya Kumar Hebbar:** Yes, we expect the ROA or Opex will be different for this product but when we say 25% leeway it is not necessarily only for secured basically non-microfinance assets. When you say assets, it is at the balance sheet level including all other assets also. But let us assume that at least 20-22% will be available for lending. So, particularly non-microfinance means non-complying with the new regulatory norms. If the product is non-compliant that becomes a non-microfinance asset. So, one can do even unsecured loan also, secured loan also. But what we believe is that secured would be better to do because of the diversification point of view. As the entire book is unsecured that is why it will be good to do the secured book. So, our view that it takes some time for us to build. At least, three to four years it would take to reach 15%-20% kind of assets here. As the microfinance book continues to grow that is why this headroom also keeps growing.

**Amarnath Bhakat:** How would be the ROA be for those types of the assets?

**Udaya Kumar Hebbar:** Difficult to say. It will have some lagged effect to give the ROA but still at the fourth year we should be giving about 4% plus ROA there also.

- Amarnath Bhakat:** Thank you.
- Moderator:** Thank you. The next question is from the line of VP Rajesh from Banyan Capital Advisors. Please go ahead.
- VP Rajesh:** Hi! Good morning, thanks for the opportunity. All my questions have been answered except this one. I was just curious what is your current market share and where do you see it going to in the next three to five years?
- Udaya Kumar Hebbar:** In the industry our market share is about 5.6% and among NBFCs it is about 18%. But we will continue to grow but difficult to say the market share point of view. We have not put a specific target number against because that it is a floating industry. A lot of people are moving into the market. So, we do not know, but we will definitely maintain our shape and aspire to increase our market share.
- VP Rajesh:** Okay all right thank you.
- Moderator:** Thank you. The next question is from the line of Nikhil Rungta from Nippon Indian Mutual Fund. Please go ahead.
- Nikhil Rungta:** Sir thanks for again giving me this opportunity. Just one question from my side. Recent checks suggest that rural agri is doing very good and you mentioned rightly that 50% to 55% of our portfolios are involved in this allied-agri. So, do you think that if this rural-agri comes out to be very good as expected then our growth could be higher than what we have guided? And our provision could be significantly lower than what we have guided because of repayment from these borrowers?
- Udaya Kumar Hebbar:** Hoping actually let us see how it works but difficult to give estimation now. The provisions actually as we said earlier it is more of a legacy carry forward for this year that is why we said it is little higher. But that is well calculated number because carrying 1.3% NNPA will definitely be a larger hit for the next financial year. So, we expect better year definitely, so let us hope for the best.
- Nikhil Rungta:** That is all. Thank you.
- Moderator:** Thank you very much. As there are no further questions, I will now have the conference over the management for closing comments.
- Udaya Kumar Hebbar:** Thank you all. Thank you for spending time in the early morning and I look forward for a good year and all the best to everybody. Thank you very much.



*CreditAccess Grameen Limited*  
*May 13, 2022*

**Moderator:** Thank you very much. On behalf of ICICI Securities Limited that concludes this conference. Thank you for joining us you may now disconnect your lines. Thank you.