"CreditAccess Grameen Limited
Q1 FY2021 Earnings Conference Call"
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Moderator: Ladies and gentlemen, good day and welcome to the CreditAccess Grameen Limited's Q1 FY2021 Earnings Conference Call hosted by IIFL 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. Abhishek Murarka of IIFL Securities Limited. Thank you and over to you Sir!

Abhishek Murarka: Thank you Ayesha. Good morning everybody and welcome to the 1Q FY2021 conference call for CreditAccess Grameen. We are thankful to the management for giving us the opportunity to host this call and we also congratulate them for the hard work and the great disclosures they have provided this quarter and the great results as well. From the management team, we have Mr. Udaya Kumar Hebbar, Managing Director and CEO; Mr. Diwakar B R, Director (Finance) and CFO; Mr. Balakrishna Kamath, Deputy CFO and Mr. Nilesh Dalvi, Vice President, Investor Relations. I would request the management to give their opening remarks after which we will open the call to Q&A. Thank you and over to you Sir!

Udaya Kumar Hebbar: Thank you Abhishek. Good morning to everyone and I thank you for taking your time and joining us today to discuss our Q1 FY2021 financial performance. The COVID-19 pandemic has caused the business environment to become very challenging and volatile. As the number of COVID cases keep rising, every district is behaving in a dissimilar manner depending on where it is placed on the COVID infection curve. Lockdown rules and restrictions have got highly localized in every state, every district and every village. Given such highly evolving scenario we as an organization have been focused on dual responsibilities of 'Stabilizing our present' and 'Preparing for stronger future'. Customer centricity is the most important pillar of our business. In today's challenging times we are trying to make our business processes and field operations as agile as possible to safeguard our customer's interest. Continuous customer connect and strong customer relationships have helped us to make an accurate assessment of our customers repayment capacity. While moratorium 1.0 was extended to all customers, moratorium 2.0 was extended only on need basis. Additional funding support was extended to customers with prompt repayment track, customers were also provided cashless repayment options. Our collections resumed from June 1, 2020 and the collection trend was largely in line with the customer survey conducted in May. We recorded collection efficiency of 74% in June, which reflects the collections received in June against the demand raised in June. Around 67% of customers paid one installment, 16% made one to three installments and remaining 17% customers did not pay any installment. We accordingly extended partial moratorium for 16% customers and full moratorium to 17% customers. Similarly, we recorded collection efficiency of 76% in July. We were expecting collection efficiency at 80% in July; however, it remained at 76% primarily on account of extended intermittent lockdowns, localized restrictions at village level and district level primarily in Maharashtra, Tamil Nadu and Karnataka.

If we exclude Maharashtra, then our overall collection efficiency is around 80% in July. Our strong customer relationships, deep rural presence, majority of borrowers being engaged in essential activities and highly motivated field staff helped us to record relatively faster recovery in collections. We are working on further improving the collections in August and September. We are posting additional experienced staff in low recovery regions, reassigning old staff wherever necessary to closely engage with customers opted for moratorium and additional moratorium support is provided by quality control, audit and risk teams along with plenty of back-office support from our RPC team. In these uncertain times it is very critical to maintain high employee morale and provide them with sense of security. Our employees have continued to receive their monthly incentives since our incentive structure is around customer service and process controls. Further we have also protected their bonuses and increments based on annual performance. We are ensuring regular sanitization and social distancing norms are strictly followed at branches and during center meetings. We are supporting our employees with additional paid leaves, offering monthly salary in addition to health insurance covers in case of any unfortunate COVID positive event. We gradually resumed the disbursements in case of customers who paid consistently over the initial two to three installments; hence we disbursed around Rs.46 Crores during the last week of June followed by Rs.527 Crores in July, which was around 72% of disbursements compared to July 19, 2020. All the disbursements were done in cashless mode.

Over the last four months we have been taking all necessary measures to strengthen our liquidity position. While we are witnessing improving collection trend, we are focusing on engaging with our lenders to mobilize fresh funds and manage debt repayments. We raised around Rs.1400 Crores during April to July, this along with improved collections helped us to increase our overall liquidity position to Rs.1172 Crores by June, which was 12% of the GLP. This further increased to Rs.1420 Crores by July 30, 2020. In these uncertain times it is always prudent to build enough risk profile in place. Even in normal times we have always taken a conservative approach with early recognition of delinquency and building adequate provisioning coverage. Based on the risk profile of our borrowers and their current repayment behavior in June and July, we decided to set aside additional COVID-19 provisions of Rs.140.6 Crores in Q1 FY2021. Our total COVID-19 provision buffer now stands at Rs.223 Crores, which is 2.39% of loan assets. Our overall ECL is at 4.42%, if we exclude GNPA of 1.63% then overall standard asset provisioning (including COVID buffer) is 2.79%. This enables adequate provisioning cover against the moratorium book. Our moratorium book in value term was around 24% of GLP as on July 31, 2020, our total ECL of 4.4% now covers 17.7% of moratorium book as on July 31, 2020. We are currently well placed with adequate risk and capital buffers in place. Our Tier-1 capital is at 22.4% as of June 30 2020 after having already standard asset provisioning buffer of 2.79%, this should be sufficient to achieve our growth plan for FY2021; however, we are in the process of determining the capital raise timing and quantum primarily to safeguard our growth for FY2022 and further. We shall get back to you as soon as we finalize our plan.

Talking briefly about MMFL performance, MMFL displayed very good improvement in collection efficiency in July compared to that in June. We recorded collection efficiency of 54% in June and 64% in July despite increased COVID cases and increased local level lockdown. The number of nonpaying customers significantly reduced from around 40% in June to around 22% in July. We disbursed only Rs.12 Crores in July, however, with this encouraging trend we will now scale up the disbursements in August and September. The liquidity position in MMFL also significantly improved to Rs.204 Crores as on June 30, 2020 amounting to 10% of GLP. We also created COVID buffer by setting aside Rs.11.9 Crores additional COVID provisions in Q1 FY2021. The total COVID buffer now stands at Rs. 22 Crores which is about 1.12% of loan portfolio. Total ECL stands at 3.18%, if we exclude GNPA of 1.58% then overall standard asset provisioning (including COVID buffer) is 1.6%. This enables adequate provisioning cover against moratorium book. MMFL's moratorium book in value terms was around 36% of GLP as on July 31, 2020. Overall ECL is of 3.18% now covers 8.9% of moratorium book as of July 31, 2020. We are taking necessary measures to improve collections, liquidity position and provisioning coverage through ensuring continuous management support. We will begin the integration process and we expect the ECL policy to align with CAGL over coming quarters.

Now I shall quickly brief on our quarterly results and then we shall proceed to Q&A session. On standalone basis, gross loan portfolio was up 27% Y-o-Y to Rs.9680 Crores and borrower base was up by 12.2% to 28.76 lakhs. NII grew by 30.6% Y-o-Y to Rs.322.5 Crores, NIM was at 12.6%, cost to income ratio stands at 31% and opex to GLP at 4.1%. PPOP grew by 37.2% Y-o-Y to Rs.224.5 Crores, PAT was down 33% Y-o-Y to Rs.63.6 Crores on account of accelerated provisioning during quarter as discussed before. ROA was 2.2% and ROE was 9.4%. On a consolidated basis, our gross loan portfolio was up by 53.9% Y-o-Y to Rs.11724 Crores and borrower base was up by 56.4% of 40.11 lakhs. NII grew by 55.2% and PPOP grew by 56.2% to Rs.255.6 Crores. PAT was down by 22% to Rs.74.6 Crores on account of accelerated positioning done during the quarter. ROA is 2.2%, ROE at 10.3%. Consolidated result reflects the benefit of MMFL though it is for one quarter because this is not exactly comparable since we acquired Madura in the month of March 2020. Our FY2020 financial performance has just witnessed the benefits of both organic and inorganic growth. With this overview, I would now like to open the forum for Q&A session. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Our morat book is about 24% as of now so how do you see the trend over the next one to two quarters, some comment on that would be helpful?

Udaya Kumar Hebbar: Our morat book as of July 30, 2020 is 24% whereas 83% of customers are either fully paying or partly paying that means only 17% of customers are at this point of time not paying and who have taken full moratorium. This is applicable till August 31, 2020, next one month we will be connecting with them regularly and we believe that most of them will start paying from

September. There was genuine requirement of moratorium for such customers whose economic activity would have started a little late and yet to start in some cases and we understand that very well, so we believe 17% customers to start paying from September.

Deepak Poddar: So, you expect your basically moratorium to become 0% or may be low single digit kind of value for September is that a fair assumption to make?

Udaya Kumar Hebbar: It will be in single digits, but it should not be more than 4% to 5%.

Deepak Poddar: My second query is on your medium term like we have been talking about 25% to 30% growth so because of this has there been any change in trajectory in terms of growth over the medium term so any kind of comment on that would also be helpful?

Udaya Kumar Hebbar: I think it is fair to assume that there will be a medium-term implication because of COVID. I think every sector will be challenging in this year, but since microfinance per se normally grows almost 60% in the second half, so if the COVID situation improves quickly in the next one to two months, we should still be able to grow in double digits.

Deepak Poddar: Double digit may be 12% to 15%?

Udaya Kumar Hebbar: Let us see how situation improves over next two, three months. If COVID improves in one month, we can grow more than 15% for example, but if COVID improvement takes two to three months time we will have little more challenges. If we get even 5 months growth opportunity we will be growing double digit, two we do not need to open any branches we have sufficient branches in sufficient places, we opened higher branches last year, we have fully trained employees available, we have 100% employees in place, we do not even need to recruit many people for this purpose, we have sufficient funding, we have sufficient capital, so nothing will stop us if we get five, six months of appropriate time to grow.

Deepak Poddar: Double digit growth that you are talking that is for this year, but over the medium term is there anything that you can share?

Udaya Kumar Hebbar: I think that will impact if you remember industry should grow between 25% and 30%, I think when you say five years maybe six years it should be able to grow.

Deepak Poddar: Okay, so the industry growth at least you would be targeting for the medium-term right that would be fair to assume?

Udaya Kumar Hebbar: The demand for this industry is quite intact considering the large unbanked, underbanked households. Further, post COVID situation this will not come down probably, so due to this situation the demand will continue to exist over medium term.

Deepak Poddar: That is, it from my side. Thank you very much for answering the queries and all the very best.

Moderator: Thank you. The next question is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa: Two questions from my side, what would explain the sharp divergence in collection ratios between CreditAccess and Madura both on a state wise, even with respect to states like Tamil Nadu and Maharashtra as well as in the 100% full payment bucket?

Udaya Kumar Hebbar: Okay, you said two questions I thought will have one more.

Karthik Chellappa: Second question is based on your feedback from your customers, in July what percent of your borrowers would have got top up loan not just from CreditAccess, but probably even from another bank or NBFC or MFI?

Udaya Kumar Hebbar: Divergence between MMFL and Grameen is because these are two different models. Madhura is a monthly model, where normally collection happens with bit of lag whereas Grameen works on a weekly collection model, so always there is a kind of difference between these two models, but because of our support and management support they have been able to increase from 54% to 64% in July. But if we compare Madhura, it is much better than the industry in every state for example, if you pick up Karnataka they performed better than CAGL, they performed 89% collection compared to CAGL collection of 77% collection so they have done much better than the industry so we are quite happy with that. With our support it will actually further improve going forward. Regarding your second question we really do not have an idea about who got the top-up loans. We started disbursing in July to the customers where the group is fully paying, either providing them repeat loans or meeting their additional funding requirements. We are already at 72% equivalent of July 2019 level at this point of time and we believe this will only increase for the next month. It is important and our responsibility to provide liquidity for our customers also, which we are doing.

Karthik Chellappa: Okay Sir just one clarification so the Rs.500 odd Crores that you disbursed in July how many customers would that represent roughly, so how many customers would you have disbursed the loan?

Udaya Kumar Hebbar: I may not have right now that number maybe you can reach out to Nilesh later he will give that number.

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

Renish Patel: Sir two questions, one is on the collections, so we have seen a pretty sharp improvement in June but July remains static at around the same number, and question number two is the nonpaying customers at 17% if you can throw some light in terms of, is there any particular geography, district or economic activities?

Udaya Kumar Hebbar: Thank you Renish. The July was more impacted with COVID in most of the geographies, if you see start of July the COVID numbers were quite controllable and then suddenly there was a surge in the numbers, which actually made the administration to impose many lockdowns at district levels. For example from second week of July many districts in Tamil Nadu, many districts in Karnataka, many more districts in Maharashtra got locked, which impacted the collections, so it is not that the collections reduced actually collections still went up from 74% to 76% and almost 83% of customers paying probably they are not able to pay the full value because they have to skip one or two installments because there is a lockdown either we are not able to reach or they are not able to pay so that is the situation, only that is the reason which probably there is a temporary slowdown of one or two weeks in many of the districts particularly about 7 to 8 districts in Tamil Nadu, about 7, 8 districts in Karnataka and some districts in Odisha and Maharashtra. So, we believe that by July 31, 2020 most of these lockdowns are over, we expect to do much better in August. The geography which really impacted us is Maharashtra, which is still at 65%. If I actually keep Maharashtra separate and entire other states separate we are actually above 80% collection so that are the actual numbers and in case of nonpaying customers largely in Maharashtra and COVID numbers are high there and collection is only 65% so largely in Maharashtra which still had more restrictions in the most of the southern part and around Pune, which is impacted and some places around the city wherever we have urban area the lockdowns and containment zones are higher where there are some cases and some of them are ecosystem related like beauty parlor or connected to travel, tourism, temple that kind of ecosystem dependent customers. We will need little more time to get back to normal, so those have taken the moratorium, so total 17% comprises of this kind of customers.

Renish Patel: Got it and just last question actually this is to BR Sir, we have a goodwill of around Rs.317 Crores on balance sheet, so what is the amortization policy and what sort of impact we foresee for the next three quarters because of the amortization?

Diwakar B R: As I mentioned in the previous quarter’s call immediately after Madura this is going to amortize for a very long period of time and the impact of this in the balance sheet for the next three to six quarters or even two years is actually negligible or minimal, so there is not going to be anything.

Renish Patel: I heard your disbursement number of Rs.527 Crores, which is in July, so how do we see that trend going forward per month basis second half which is generally a good period for MFI industry?

Udaya Kumar Hebbar: We expect the disbursement will go up from here slowly because as the number of full paying customer increases obviously repayment starts as and when they close the loan, two we will start the new customer acquisition as soon as a little improvement in COVID situation because at least we want to see a little flattening of COVID going down we will start acquiring new clients. As I said for earlier question normally the growth comes in the second half for microfinance and we still believe that we will get five, six months of growth period so that is why we believe the disbursement will start growing up from September, October onwards.

Renish Patel: Thank you and best of luck Sir.

Moderator: Thank you. The next question is from the line of Akshay Ashok from Dalal & Broacha. Please go ahead.

Akshay Ashok: Congratulations on a good set of numbers. I just had a couple of questions. For example Karnataka for the past few weeks in the news channels we can see that it is becoming a hotspot as the number of cases are going up, in terms of collection efficiency do you think that will be affected because of that what is the situation on the ground and then the next question I have is about this commercial paper we have raised for three-month period, what was the requirement of short term paper given that we have sufficient liquidity position?

Balakrishna Kamath: Thank you Akshay. Karnataka yes there are increase in COVID cases, but predominantly in Bengaluru, district wise it is not too heavy. They have done some lockdowns last fortnight, it is one of the reasons that a little decrease in collections in July or this is not too much from June to July, but now they lifted all the lockdowns in all the places, so we believe our collection should start improving in Karnataka, already it is quite good over 75% we expect at least 4%, 5% increase in Karnataka in this month because most of the lockdowns have been removed completely in Karnataka now. So, on commercial paper it is important to go for commercial paper because maybe Diwakar will tell this because it is important to start the new instrument and understand this well.

B R Diwakar: As I briefly said it is not the quantum or amount or anything like that, we are getting sizable amount at the same time start a new instrument. It is our first CP and also we are the first MFI and during this COVID times when the industry is trying to getting back to normal, it is important for that leading entity like Credit Access Grameen to access all types of sources and Rs.200 Crores is actually not substantially large amount at the same time and we can absorb this comfortably and it is a three-month paper and we are getting at a very good rate, so for us it is more of diversifying our resources as part of our strategy and getting back to normal debt capital markets in a manner where MFIs can tap all sources, so this is more of a strategic inflow rather than any core hang on liquidity while we are comfortable.

Akshay Ashok: You are allotting Rs.1000 Crores worth NCDs also right?

B R Diwakar: We did take substantially large level of TLTRO funds, so Rs.1000 Crores approval was essentially to ensure that we are in a position to have the approvals in place as and when we take the TLRO funds, which have come through in the months of June and July that is one, also we have taken this approval essentially to be in readiness for our PCGS as well which we will tap in the next quarter, which will also be through the bonds.

Akshay Ashok: I did not get you Sir what is starting in the next quarter?

B R Diwakar: The new facility of Partial Credit Guarantee Scheme released by the government is also by way of bonds, the NCDs, so we have taken approvals in advance of what these funds are going to be raised while you have utilized half of it through TLTRO funds in June and July the remaining part will be accordingly assigned to the new facility that we will raise through PCGS.

Akshay Ashok: Thank you so much. That is, it from my side.

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

Nidhesh Jain: Thanks for the opportunity Sir and congratulations for a great set of numbers. 17% of our customers in Credit Access are not paid and you are saying that number will decline to 4% to 5% in the month of September, so what give us confidence that these customers almost 60%, 70% of these customers will start paying in the month of September, when we are speaking to those customers what is the feedback we are getting and what gives us the confidence?

B R Diwakar: We are in touch with the customers, if you see in our presentation 98% of our centers we have visited them, we have access with them, we have connection with them, so at least their feedback is that they will start after the moratorium, they have taken moratorium because they do not have sufficient capital or economic activity at June and July point of time, some of them will start in August itself because we are also giving partial moratorium also, so at least feedback what we get is that from our customers and from our employees that many of them will start paying in August and September.

Nidhesh Jain: When we are collecting our EMI large portion of that EMI is going into accrued interest, so what is the accrued interest that we are carrying as of June 2020?

B R Diwakar: I will tell you. We have collected 60% of the interest accrued for the first moratorium already because whoever started full payment have already paid the interest for first three months, so now only they must do normal EMI. Only who have taken partly or a full moratorium only for that part interest is pending, which will actually further accrue for the next three months and together they have to pay, but whereas who have paid for example 67% of customers who already paid, already paid their interest accrued also, which means about 65% of interest accrued already collected by us.

Nidhesh Jain: Sure Sir and lastly if I look at the data in your commentary it seems like the COVID related credit cost will be lower than 5% number and we have already provided close to 2.2% to 2.3% so additional less than 3% needs to be provided over the next three quarters, is it right understanding?

Udaya Kumar Hebbar: I think it is a quarter-on-quarter we must see based on situation because still we are sitting in unprecedented situation or unknown situation, but our strong belief is that quarter-by-quarter we can review this further.

Nidhesh Jain: That is, it from my side.

Moderator: Thank you. The next question is from the line of Saikiran Pulavarthi. Please go ahead.

Saikiran Pulavarthi: Thank you for the opportunity. Just two questions. It has been an unprecedented time and no one has experienced such kind of things on businesses or common man what are the changes which you are seeing on the ground at this point of time, potentially which might revisit the way you are doing the businesses, any thoughts on that will be really helpful?

Udaya Kumar Hebbar: It is important question. This entire microfinance is a human touch-based business and important to ensure the social distancing, ensure the awareness about the COVID the field is most important, so what we ensured that every meeting we will meet only four to six customers in every week so that in a month we are able to meet all our customers, so that we still able to ensure social distancing. I am sure that the habitual trainings we have to do to everybody we continue to do, awareness we continue to do, which we are doing, we have enabled to digital payment to customers, today more than 1000 customers are paying digitally also, entirely almost 100% of our funding or disbursement is cashless, which used to be about 70% earlier, so these changes are there. There are some cultural changes also will be there at a customer level when we start the new customer acquisition, earlier we used to do 5 to 10 members group probably we will get into only five members group going forward to ensure distancing measures when we form a new group also, so many things we need to change and ensure and align with our processes, which is important.

Saikiran Pulavarthi: As a followup if I can ask does this pandemic has exposed any of the fault lines in the existing business, any thoughts and what you are thinking about to rectify them, anything which comes to your head if you can explain that will be really helpful?

Udaya Kumar Hebbar: Actually no, really pandemic has not exposed any of our fault lines, this is unprecedented, this impacted everybody and is not specific to microfinance business, so we still believe microfinance will be a customer connect and the human touch business and discipline business, which will remain that way. To some extent there is a change in the customer behavior already happening. Since last four, five years we have increased the penetration of mobile, penetration of data availability, penetration of ecosystem and infrastructure. In the next two to three years we expect the change in the way we do the collections in a more digital that anyway it is under process in this business probably that will hasten a bit except for that we do not see major change or major fault we found out of this pandemic.

Saikiran Pulavarthi: Thanks a lot Sir. That is really helpful.

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

Shreepal Doshi: Thank you for giving me the opportunity. Firstly congratulations on good set of numbers and collection efficiency is also going up, my question with regards to the same is that are we seeing any inconsistencies in the EMIs paid by the customers when we are out of the moratorium, so are we seeing any ecosystem there?

Udaya Kumar Hebbar: No, it is a very disciplined business with our customers, so even the EMI what we schedule for them is no change between the earlier EMI to new EMI so they do not have any challenge of high EMI they have to pay after the moratorium also, we extended the period of tenure of the loan, so not the value of EMI so that there is no extra stress on them, so there is no inconsistency here.

Shreepal Doshi: Okay, mostly all my questions have been answered. Thank you and good luck for the next quarter.

Moderator: Thank you. The next question is from the line of Kaushik Warrier from CSB Bank Limited. Please go ahead.

Kaushik Warrier: Thanks for the opportunity. I had two questions. What my question was that due to the ongoing period of this present pandemic do we foresee any change in the timeline of the second step of Madura acquisition?

Udaya Kumar Hebbar: There is no change except for two, three months of delay in initiating the integration because we are all in lockdown stage, but for that we do not foresee any change in our plan in terms of integration. We are making step by step changes in the process and then products I think we do not see, already we are working on a integration mode, we have appointed PWC for supporting the integration, so we do not see any change. Two months of lockdown obviously that action delay is already there otherwise we do not see any change.

Kaushik Warrier: What is approximate timeline for completing this approval?

Udaya Kumar Hebbar: We estimate technical integration by the financial year, there may be always legal issue because we need to go to SEBI and we need to get NCLT approval, which has its own timelines, but technically we should be ready by March 31, 2020.

Kaushik Warrier: Okay and you also mentioned something like to improve the collection efficiency we have been appointing various officers, so do you foresee the employee expense to go up in the coming quarter or three, four months due to this?

Udaya Kumar Hebbar: No, we said that we will be posting from a different zone, for example the seniors from a different places will move to the place where there is a need of improving collections, so it is the internal transfers and movement of people for that purpose we are not expecting any increase in cost.

Kaushik Warrier: Thank you very much Sir. Congrats on the numbers.

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

Abhishek Murarka: Thanks for allowing the questions. Two questions, one for Madura after the integration is complete would you be converting the monthly meeting process to weekly or by monthly is there any thought process on that and also on your own branches, which are currently on monthly collection have you changed that to weekly or by monthly that is the first question and the second question is with respect to opex, so two parts right staff cost and non-staff cost, in staff I just noticed that there is a drop in the loan officers in this quarter and may be you would not have replaced attrition or something like that, but in the medium term are you looking to re-hire that many people or is this a permanent efficiency improvement on a per branch staffing basis, in the non-staff part considering in the past we have also said that there is very little scope to really reduce cost on a permanent basis do we expect that part to come back to pre-COVID levels once things normalize?

Udaya Kumar Hebbar: Thank you Abhishek. So MMFL, yes after the integration we want to get into one common process of products or tenures across both organization together, so we are working on that and whereas CAGL there is no multi branches actually as you now we have the tenure decided by customer while taking loan, but still they would meet every week, so even they take monthly repayments, they will still meet every week and pay once in four week basis. CAGL process will continue as it is with the option to customer to decide the tenure while taking the loan and on opex what happened people who recruited between February and March who are trainees who are not yet confirmed employees probably some of them have not come back or probably the parents have not allowed them to come, about 250 of them have not come back after the COVID. They were just one month or less than one month old employees, but for that we do not have any attrition actually and some of them based on the number of customers we need employees, we keep hiring some people also, already in July we hired almost 170 to 200 fresh employees, but what we did is we hired our earlier employees who left us who have been good with us and we give them opportunity for that, we do not need to train them, we give the opportunity to come back to our system, which is a immediate step we took for that in a difficulty, it is a fresh hiring, fresh guys, training them, sending to our branches are going to be difficult at this time that is why wherever any of our employees who wanted to come back with proper checking we are in a process of taking them back. There will be increased in employees based on the need, since we are not immediately opening branches, we may not need too many employees and when we start opening branches, we will take more employees. Non-staff cost there is no much scope as I said already, there would not be much scope, a very less scope we have even employee cost also we are actually at a optimal level of opex in fact 4.1 is not the steady status, steady status will be 4.9 to 5. Q1 we are showing 4.1 it is aberration, for the next two, three quarters it will go back to the normal 4.8. 4.9 range, so that we still believe that that is optimal cost.

Abhishek Murarka: Just to get this for MMFL they are on a normalized basis probably at 5.8 or 5.9 what is the plan to bring that down to 5 which would be your normalized opex to assets?

Udaya Kumar Hebbar: That normal currently is 5.6 to 5.9, our belief one to two years which will be within our normal range of 5%.

Abhishek Murarka: Okay, sure and probably just quick one. Apart from the weekly and monthly collection difference between Madura and industry and you, would there be any other reasons for significant difference in collection efficiency let us say 76% versus 60%, 65% for the industry, would there be any other reason for the difference?

Udaya Kumar Hebbar: I will take that as a key for us actually. The connect with customers, regularly in touch with customers, what we provide to their entire need that is most important for customers, so customer retention is the factor, which is quite important. If you see I will give one more example. We have 43% unique customers, which may not be the case for the industry, and we have another 40% who have only one other lender it is also unique for us, so there are many pieces together which makes a difference.

Abhishek Murarka: Okay, sure. That is helpful. Thanks.

Moderator: Thank you. The next question is from the line of Saptarshee Chatterjee from Centrum PMS. Please go ahead.

Saptarshee Chatterjee: Thank you for the opportunity Sir. My first question is in the three major states Karnataka, Maharashtra and Tamil Nadu, are you seeing any kind of change in repayment behaviour pre-COVID of the customers and post COVID like given the moratorium the customers who are paying, who are like normal customers earlier are having a problem are given the moratorium or like the customer who are earlier defaulting but they are paying in this moratorium because they are related to some more essential services versus others so any sectoral spend behaviour you are saying?

Udaya Kumar Hebbar: It is little difficult to compare because the two periods are not comparable period, there were many other reasons for customer who want to pay, but not able to pay at this point of time may not be appropriate to compare, but in the three states I do not see changes actually, but I can give one example to you. For example Vidarbha in Maharashtra, which has suffered a lot after the demonetisation all of you know, but that shown very high repayment behaviour, the collection is close to 80% or more in those belts probably if that answers to you maybe, otherwise comparing these two periods is quite difficult.

Saptarshee Chatterjee: That is helpful and secondly we have seen these three states constitute most of our portfolio, in medium term in two to three years do you have any plan to diversify this portfolio because we see microfinance state wise there is a high concentration?

Udaya Kumar Hebbar: We are already in 15 states and with Madura we are at 16 states and these three states obviously will come down because our growths are happening only in other states, our new branches, acquisition of more employees and new customer acquisition majority is happening in other states, for example Karnataka our annualized growth even pre-COVID was just 12% or 15% whereas regrew about 39%, so already there is a plan, already there is expansion, so which will ultimately in two, three years time will result into a reduction of portfolio in these three states.

Saptarshee Chatterjee: How much will be the contribution from these three states in three years time?

Udaya Kumar Hebbar: May be please connect with Nilesh, he will give a kind of data because of hand I do not have right now here, but it will come down significantly.

Saptarshee Chatterjee: Thank you so much.

Moderator: Thank you. The next question is from the line of Prakash from Equitas. Please go ahead.

Prakash: Thanks for taking my question. Just having one question with respect to the merger with Madura Microfinance, so just wanted to know that in terms of the timelines that we are expecting and whether the NCLT filing has already happened in terms of the effective date and also the creditors' approval whether it has been taken for this merger?

Udaya Kumar Hebbar: We had mentioned earlier in all our earlier calls this is more a processed thing wherein we get SEBI approvals and we then have to file with NCLT and it is a procedural aspect where we need to go step by step because of the COVID we have not really been able to do this filing, but we expect that process to kick start any time in the next quarter and hopefully as and when we have done with those approvals, we will file with NCLT and take it a normal course and as they had mentioned earlier if you recall the technical aspect of the two entities working as one the target to complete by the integration by March which is more important, the legal aspect of it which is more to do with the procedural approvals even if it goes beyond that, it is not a point for us because the effect of merger, the benefits of the merger have already started accruing to the company from this quarter, so therefore the procedural aspects will take in due time and we expect these to happen in due course.

Moderator: Thank you. The next question is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa: Thank you very much for the opportunity again Sir. Just two questions, first is collection ratio that we have stated does not exclude foreclosure, prepayments and overdue collections as well?

Udaya Kumar Hebbar: Sorry, can you repeat please Karthik?

Karthik Chellappa: The collection ratio of 76% that you have disclosed does that exclude prepayments foreclosure or recovery from overdue account?

Udaya Kumar Hebbar: This is clearly due for the month, collection for the month.

Karthik Chellappa: Okay, excellent.

Udaya Kumar Hebbar: No more dues, no prepayment, no advance payment considered here.

Karthik Chellappa: Okay, fantastic. My second question it is almost early days yes, but I believe that the credit guarantee scheme from the government of Rs.3 Lakh Crores have now also been extended to individuals even it is classical within the SME, so I just wondering whether microfinance borrower especially the large ticket loan would qualify for this and what would be your approach if that would be the case?

Udaya Kumar Hebbar: Credit guarantee scheme you are talking about individual DICGC one, which is not covering microfinance at this point of time and there is a rule that the coverage is only excess of 5% default so which means it is not quite eligible for us actually and we have to pay good amount of fee for that also, at this point of time it is not very attractive for microfinance borrowers.

Karthik Chellappa: Okay for practical purposes it will not apply to you and you will not be interested to avail it?

B R Diwakar: You asked for microfinance borrowers, we are in NBFC, MMFI two different things.

Udaya Kumar Hebbar: Currently we are not availing it, eventually if there is a more beneficial to us, we will look at it, currently we are not availing it.

Karthik Chellappa: Okay, got. Thank you for the clarification. Wish you and the team all the very best.

Moderator: Thank you. The next question is from the line of Roshan Chutkey from ICICI Prudential Mutual Fund. Please go ahead.

Roshan Chutkey: Thank you so much for taking my question. Sir I have joined the call a little late, I just wanted to understand what is the interest accrued portion of the net interest income this quarter?

Udaya Kumar Hebbar: Actually we already recovered 65% of the accrued because as we said earlier first three months we gave moratorium and the first installment of our customer we actually collected interest so that we do not have accrued value too much, but we have a small amount, I exactly do not have the number here, about 65% of our accrued for moratorium has been already collected in the month of June itself, balance is there, but exact amount is difficult to say, maybe we can give it offline.

Roshan Chutkey: Thank you.

Moderator: Thank you. The next question is from the line of Jeetu Panjabi from EM Capital Advisors. Please go ahead.

Jeetu Panjabi: Thank you so much for this. I have got two questions, one when your team members sit down with the borrowers and some of whom are having difficulty not paying what is the colour you are picking up, what is the reason for them not paying is it COVID related, is it agri related, is it other services related, how are these reasons different from what normal reasons come up?

Udaya Kumar Hebbar: The top reason is the cash flow shortage for payment because economic activities not fully started and they also know that they legitimately can avail moratorium till August 31, 2020, so these two are the combination of reasons, which is the way I think other are very simple some of them, other members who have paid although who do not want to pay for the day they want to prevent them, these are all very small, small things, village is lockdown, we are not able to go or customer not able to come back, not able to meet almost 5%, 6% of the cases we are not able to meet regularly because of the intermittent lockdowns also, and when you say geographically we have large number of customers in Maharashtra because our collection is 65% only there and other part is on the high COVID reasons or the cities like Pune and Bengaluru where we have the kind of some portfolio around 18% of portfolio is in urban to some places we have this case because in urban places the economic activity started late so that is one of the reasons that is why we could correlate with the economic reason or nonavailability of money or sufficient money is the reason and they also want to conserve it whatever since the legitimate availability of moratorium till August 31, 2020 they are availing that and this is always after discussion, our senior employee will discuss with them, they tell them the impact of moratorium, how it increases the interest, how it enhances or extends the time to avail the loan again, we explain them all, but still they would want to avail it so we permit them to avail it.

Jeetu Panjabi: To assume here is subgroups of people do good borrowing if half of them want to pay and half of them do not take the moratorium are, they still under obligation?

Udaya Kumar Hebbar: For example today 16% of customers have partially taken moratorium, some people in the customers in the group have taken moratorium, some people are paying it also, so we allow that flexibility to customer because each one have different businesses, each one have different economic activities, so we need to listen to them that is most important here, so based on the need we are giving the moratorium at a individual level not at the group level.

Jeetu Panjabi: Then the group obligation breaks down right, is that a fair understanding?

Udaya Kumar Hebbar: Currently, we are flexible on that because this is unprecedented situation we cannot be imposing those kind of restrictions at this point of time because legitimately they can take the moratorium, which is regulatorily provided, so we are flexible at this point of time.

Jeetu Panjabi: If you are looking out your six months can you explain what do you think is your path to normalization, you think from six months, seven months or eight months you will see a more normal environment or do you think it take longer or shorter what are the metrics that you follow to understand besides this the money collection part is there something else you look forward in understanding whether things are normalizing?

Udaya Kumar Hebbar: Our main disclaimer will bet the COVID situation, how it will move further or it will increase or it will flatten immediately, it is like time to come back to normal and the down curve is the mostly an important disclaimer for this answer actually. Even if you get about five to six months or normal period in this financial year and if the COVID comes down clearly in the next few months time we will see a much normal with this of course anybody's estimation is that COVID will not go away, we need to learn to live with COVID maybe not at this level maybe at very low level that is why to the abnormalities of action distancing, sanitizing, awareness creation, and those will be living with us for not six months maybe one or two years probably, we need to work with that, we need to live with that, but for that does not normality should come actually should come in five, six months' time.

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

Rajiv Mehta: Congrats on good numbers. Sir mine is just a clarification on the accrued interest, so when you say that 65% of the moratorium one accrued interest was collected, so these customers started paying from June and for customers who paid June and July in full the initial installments were attributed to the accrued interest of the moratorium period first will that be right and similar would be the treatment for people who are not paying right now or paying partially so when the moratorium ends and if they start paying you in September somebody who has not paid you so far the first few installments will go towards clearing the interest of the moratorium period and then afterwards after clearing that the repayment of the loan will start right?

Udaya Kumar Hebbar: Yes, you answered your question already. Not only to the extent of principle to the extent of it is an interest time they have taken to that extent total period will be extended.

Rajiv Mehta: So, has the interest will capitalize the loan tenure would have got extended by possibly higher period, right?

Udaya Kumar Hebbar: Correct because there will be a chance of interest on interest also, which we want to provide because we are so far hearing that the issues about interest on interest, so we do not want to get into that problem at all, so no interest on interest is projected in our business.

Rajiv Mehta: Understood. Thank you and best of luck.

Moderator: Thank you. I would now like to hand the conference over to the management for closing comments.

Udaya Kumar Hebbar: Thank you. Thank you for your time and thank you all I spent almost more than an hour and have a nice day and stay safe.

Moderator: Thank you. On behalf of IIFL Securities that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.