"CreditAccess Grameen Limited
Q2 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the CreditAccess Grameen Limited Q2 FY2021 Earnings Conference Call hosted by IIFL Capital 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 Capital Limited. Thank you and over to you Sir!

Abhishek Murarka: Thank you Aman. Good evening everybody and welcome to discuss CreditAccess Grameen Q2 numbers. From the company, we have the entire management team represented by 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 will now hand over to the call to the management and after brief opening comment we will open up the call to Q&A. I would also to like to take this opportunity to thank the management for loving us to host the call. Thank you and over to you there for the rest of the call!

Udaya Kumar Hebbar: Good evening to everyone, and apologies for this late evening call. I thank you for taking your time and joining us today to discuss our second quarter FY21 financial performance.

After resuming collections in 1st week of June, we have been witnessing an improving trend on month-on-month basis. Despite several intermittent localised lockdowns/ restrictions, we have been able to increase our collection efficiency from 74% in June to 88% in September and 89% in October. Our strong customer relationships, deep rural presence, majority of borrowers being engaged in essential activities, and highly motivated field force helped us to record relatively faster recovery in collections. The collections trend temporarily slowed in second half of October due to cyclonic floods in certain districts of Maharashtra and Karnataka, intermittent lockdown imposed in Chhattisgarh and brief period of festivities related change collection dates. Now, with the end in loan moratorium, good control over COVID situation and restrictions getting largely relaxed to allow normative functioning of the economy, we expect further improvement in collections trend in November and December as more and more customers resume normal repayments. The experience so far helped us for the readiness for any 2nd wave or 3rd way of COVID, which we really do not expect.

The proportion of non-paying customers has also declined over last 4 months from 17% in June to 8% in September. If we exclude the pre-COVID PAR customers, this further comes down to around 6-6.5%. Further, in month of October, we have seen improvement in customer activation. Around 24% of customers who didn't pay in September have paid in October and we expect further momentum on this front. Deploying additional experienced senior staff in low recovery regions and reassigning old staff wherever necessary helped us to closely engage with customers who had opted for moratorium and motivate them to resume repayments. Overall, looking at the current customer repayment status, we are expecting an eventual tail around 4.0% which we must closely monitor over next few of months. As the on-ground situation is gradually improving, and as the customers getting back to their normal activity levels, they will require additional funding support and hence we expect them to come back and start repaying.

We had gradually resumed our disbursements only to existing customers who displayed repayment consistency over initial 2-3 instalments. With an increasing comfort on our customers' repayment behaviour, we further increased our disbursements, reaching INR 1,420 crore in Q2 FY21 compared to INR 46 crore in Q1 FY21. The disbursement growth further gained traction in October, as we started adding new customers and onboarded 38,800 new customers in October. Our Oct-20 disbursements touched INR 972 crore which were higher compared to INR 881 crore disbursed in Oct-19. This indicates normative business growth going forward.

Over last 6 months, we have been taking all necessary measures to strengthen our liquidity position. Improving collections trend and continued support from our lenders have helped us to maintain a solid liquidity with INR 1,662 crore cash & bank balance as on 30th September, amounting to 15.1% of total assets. We also successfully completed Qualified Institutional Placement of INR 800 crore in October, further bolstering our liquidity position. With higher liquidity, we will have little negative carry, but we believe it will be worth holding higher liquidity for some more time.

We continued to strengthen our risk buffer in line with our conservative approach with early recognition of delinquencies and building adequate provisioning coverage. Based on the risk profile of our borrowers and their current repayment behaviour, we have set aside INR 65.3 crore provisions in Q2 FY21. While our GNPA, considering no change in NPA recognition after 31st August in accordance with hon'ble Supreme Court Order, is 1.66%, for provisioning purpose we have considered the actual GNPA of 1.82% as on 30th September. Our total ECL provisions now stand at INR 480 Cr which is 5.35% of loan assets. If we exclude GNPA of 1.82% as on September, then overall standard asset provisioning is 3.53%.

Overall, on the back of improving collections from field, robust liquidity position, adequate new branches, trained employees and adequate risk and capital buffers in place, our business strategy during remaining five months of FY21 will focus on portfolio growth and new customer additions, leveraging our leadership position in the microfinance industry. We expect a normal FY 2021-22 in front of us.

I would also like to highlight the transition of Mr Diwakar B R as Group CFO & Director at CreditAccess India N.V. ('CAI'), holding company, and appointment of Mr Balakrishna Kamath as CFO at CreditAccess Grameen Ltd.

Mr Diwakar B R has stepped down as the CFO & Director-Finance at CAGL to assume a larger role as Group CFO & Director at our parent, CAI. Apart from the strategic support from CAI, there will be higher focus to strengthen our access in global debt capital markets and increase the share of international borrowings. Well-diversified & stable liability profile across domestic and foreign sources will be pivotal to CAGL's long term strategy of delivering consistent high growth while operating within the current construct of NBFC-MFI. Diwakar's transition will further strengthen this process.

Subsequent to above, Mr Balakrishna Kamath has assumed the role of CFO at CAGL. Bala joined CAGL as Deputy CFO in March 2020. He has solid 27 years of experience across various Tata group companies. Prior to joining CAGL, he was associated with Tata Capital Housing Finance Limited as CFO and Compliance Officer. He is member of Institute of Chartered Accountants of India as well as member of the Institute of Company Secretaries of India. My hearty congratulations to both Diwakar and Bala, and I am sure their contributions will continue to strengthen CAGLs liability profile even better.

Talking briefly about MMFL performance, MMFL also displayed healthy collections trend with the collection efficiency increasing from of 54% in June to 83% in September and 85% in October. The number of non-paying customer groups significantly reduced from around 40% in June to around 7% in September. Further, around 33% of customers who didn't pay in September have paid in October. With this encouraging trend, we gradually increased our disbursements, reaching INR 228 crore in Q2 FY21 compared to INR 0.4 crore in Q1 FY21. The disbursement growth further gained traction in October, as we started adding new customers, and onboarded 33,500 new customers in October. Our Oct-20 disbursements touched INR 160 crore, which were higher compared to INR 158 crore disbursed in Oct-19.

The liquidity position of MMFL also improved to INR 243.9 crore as on 30th September, amounting to 11.6% of total assets. As a process of gradually aligning MMFL's ECL policy with CAGL, we continued to build additional risk buffers by setting aside INR 25.0 Cr provisions in Q2 FY21. While our GNPA, considering no change in NPA recognition after 31st August in accordance with hon'ble Supreme Court Order, is 1.21%, for provisioning purpose we have considered the actual GNPA of 1.52% as on 30th September. Our total ECL provisions now stand at INR 82 Cr which is 4.30% of loan assets. If we exclude GNPA of 1.52% as on September, then overall standard asset provisioning is 2.78%.

Now I shall quickly brief on our quarterly results and then we can proceed with Q&A session.

On a standalone basis, our gross loan portfolio was up 16.5% YoY to INR 9,207 Cr and borrower base was up 6.1% YoY to 28.02 lakh. NII grew by 8.5% YoY to INR 272.8 Cr. NIM was at 11.1%. Adjusting for the negative carry impact on account of maintaining higher liquidity position on balance sheet, NIM would have been 11.7%. Cost/Income ratio was 39.2% and Opex/GLP ratio was 4.6%. PPOP grew by 9.7% YoY to INR 170.1 Cr. PAT was down 22.5% YoY to INR 78.1 Cr on account of accelerated provisioning done during the quarter as discussed before. ROA was 2.7% and ROE was 11.3%.

On a consolidated basis, our gross loan portfolio was up 41.5% YoY to INR 11,183 Cr and borrower base was up 47.0% YoY to 38.81 lakh. NII grew by 31.6% YoY to INR 330.9 Cr. PPOP grew by 26.9% YoY to INR 196.9 Cr. PAT was down 21.5% YoY to INR 79.6 Cr on account of accelerated provisioning done during the quarter. ROA was 2.4% and ROE was 10.7%. Our consolidated results reflect the benefits of MMFL acquisition which we completed in March-20. Our FY21 financial performance will thus witness the benefits of both organic and in-organic growth.

With this overview, I would now like to open the forum for Q&A session. Thank you.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer questions. The first question is from the line of Kislay Upadhyay from Abakkus Asset Managers. Please go ahead.

Kislay Upadhyay: My question is on the cost of borrowings; cost of borrowings has gone up for CAGR by 20 basis points and has gone down for Madura and going by other NBFCs we have seen that the cost of borrowing has actually come down. How can we understand this?

Diwakar B R: Actually in the previous quarter if you recall we had two facilities from NABARD and Mudra which were at something like around 6.38% and 6.7% obviously the cost was much lower but the remaining funds were all at the same level of 8.5% and 9% and therefore it appears that the previous quarters cost of borrowings was lower but otherwise it is in line with our usual normal cost of borrowings and nothing otherwise.

Udaya Kumar Hebbar: It was not a comparable base between Q1 and Q2 on this.

Kislay Upadhyay: Okay and the sources of borrowing which was at low cost any reason we did not roll it over to the current quarter also?

Udaya Kumar Hebbar: It is continuing. It is only specific to Q1, we did literally borrow in Q1 which is a lower cost whereas we did higher borrowing in Q2 which is little higher cost. The specific special window was open only in Q1 it was not available in Q2 and later on. If you remember special window was given by SIDBI and NABARD that was at the lower cost.

Kislay Upadhyay: Sir if you look at the disbursal and AUM trend of Madura it has gone down over the past four or five quarters so I wanted to understand the trend that we should expect and what is our internal strategy related to the AUM growth of Madura?

Udaya Kumar Hebbar: Both CAGL and Madura kind of rundown for some time because we did not disburse much in Q1 and Q2 if you see Madura already started going back to earlier disbursement run-rate, so we expect both the companies will grow back in the second half. I already told in my remarks that both companies have started disbursement together we already discussed Rs.1100 Crores in this

October and we have next five months, we already started a growth trend in both companies so we expect the next five months there will be a good growth and we will have a positive growth by March in both companies.

Kislay Upadhyay: Right Sir but actually if I look at Y-o-Y numbers also there is a huge difference between CreditAccess and Madura. Madura's portfolio came down by 3.6%.

Udaya Kumar Hebbar: I agree because between September to March last year, Madura did not grow quite high because of the capital requirement. Now that we have the support and there is such a good opportunity so it will grow now. In case of CAGL, we grew very well between September to March so that is what the difference.

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

Renish Patel: Sir just two questions so one is on the disbursement side for Q2 we have already mentioned that the entire disbursement towards the existing customer base but in October Sir what will be the split between existing and new borrower?

Udaya Kumar Hebbar: As we told earlier Renish till September end we are actually working with customers who behaved well and paid well and we told that once COVID situation improved, we start forming new groups and which we actually started in October. We already acquired about 38000 clients in October and our percentage may be about 40% new customer and about 60% approximately and 60% existing customers.

Renish Patel: Okay and Sir in Q2 around Rs.1400 Crores disbursement how much would be the top up loan?

Udaya Kumar Hebbar: We do not have a concept of top up loan and we have a multi-product company based on the need we provide so IGL remains 87%, 88% in our business always if you see our consistency it is about 85% to 88% is our IGL which is the same trend even Q1 there is no change in the trend.

Renish Patel: So what I just wanted to get a sense is how much of that disbursement would be towards the customer who have not foreclosed the loan so maybe the extra loan which they have taken in Q2?

Udaya Kumar Hebbar: That means basically when I say IGL is afresh loan so when I say about balance 10%-20% other loan like maybe medical emergency or a home repair for additional funding that should be about 10% to 12% only.

Renish Patel: Secondly in terms of the customer activation rate so though it has been improving the month of October but somehow for Karnataka it remains low at 22% even Maharashtra you add in there, so how should one read this number so is there any let us say challenges in Karnataka which is sort of bringing down the customization rate in October?

Udaya Kumar Hebbar: Actually if you see customers in Karnataka, non-paying customers are only 6% and if we remove the existing NPA customers from Coastal Karnataka then only 4% of the customers are non-paying in Karnataka and thus 22% is quite good despite we having some intermittent issues in form of torrential rains which impacted four or five days of collections. We expect that by November and December to improve further.

Renish Patel: Got it Sir largely in terms of course you have highlighted the qualitative comments in terms of the disbursement, but would you mind sharing the AUM growth target for FY2021 Sir?

Udaya Kumar Hebbar: So we already kind of explained earlier also we have enough ability to grow in the second half, even historically 60% growth comes in second half and we already showcased the first month already disbursing Rs.972 Crores and then we still have another five months to work and with the complete availability of capital, liquidity, manpower, branches everything in place so we believe we should be able to grow low double-digit numbers in terms of portfolio.

Renish Patel: That is it from my side.

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

Shreepal Doshi: My question is with regards to our collection efficiency, if you could give breakup of customers paying, full, partial and non-paying customers for CAGL and MMFL? Sir my second question like as you have indicated that in the slide that 8% of the customers have not paid anything in September for CAGL and 7% of the customers have not paid anything for Madura so would these customers be those customers who would have not paid anything during the moratorium time period also.

Udaya Kumar Hebbar: We are only showing who have not paid in October, if I start counting all the payment from June to here again actually I can show 99% which we are avoiding. If I take the entire payment made actually it is only 2.5% customers have not paid anything from the last five months.

Nilesh Dalvi: For CreditAccess around more than 80% customers had made full payments in month of October and for Madura also the initial two buckets that is 100% and between 50-100% there was around close to 85% of the customer groups who had made the payments in October.

Shreepal Doshi: So that is 50% to 100% of the EMI right?

Nilesh Dalvi: Yes, in Madura it is at a group level so in their case 100% and 50-100% it is around 85% of the groups have made that payment and in our case it is over 80% have made full payment, 12% in partial payment.

Shreepal Doshi: One last question was with respect to our borrower base so sequentially we have seen a contraction so what would be so if you can just throw some light why would that be the scenario? So my question was that sequentially we have seen contraction in our borrower base from 4.1 million to 3.9 million so if can just throw some light why would that be the reason?

Nilesh Dalvi: I think the management line has been disconnected. I will tell you so see overall over the last six months there has been a little rundown in the book and some of the overall customer count has reduced over the last six months but now from October onwards as we start adding new customers and as we start as the proportion of paying centers is going up so we will be in position to service larger number of our existing customers as well so to that extent the customer count will now stabilize in fact in October it has reversed the trend and both AUM and customer count both Grameen and Madura it has reversed the trend in October. Over the next five months it will now be in the positive.

Shreepal Doshi: This is a sequentially, this decline would this mean that these customers who have I think I mean who have sort of not who are not anymore part of this active customer base you would not be lending to them again?

Nilesh Dalvi: We will be lending back to them so there have been certain customers in which cases there has also been pre-closure of the loans so they had few weeks of repayment pending and they have pre-closed their loans and now as the requirement again arises, they will be coming back so we always have a certain percentage of waiting customers once they finish their current loan after a few weeks they will again take a fresh loan.

Shreepal Doshi: Okay Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Umang Shah from HSBC Securities. Please go ahead.

Umang Shah: I have a couple of them, one was are operating expenses this quarter have gone up should this be seen as a complete normalization of opex in this quarter or probably as we start growing the business in the ensuing quarters in the second half probably the opex growth will be higher and how should we look at the opex ratios in the second half?

Udaya Kumar Hebbar: See when in the Q1 itself we told that this is not a stable opex because there are a lot of expenses not there at that point of time due to lock down and now that we come back to 4.6% as we earlier also anticipated our opex will be between 4.6% to 4.8% to 4.9% on annualized basis. Last year it was 4.9% we can expect our stable opex will be around there 4.8%-4.9%.

Umang Shah: Okay all right that is helpful. Sir my second question was regarding in terms of our new customer acquisition that we have already started from October onwards if you could just throw some color as to what has changed in terms of the process or our underwriting mechanism when we now evaluate new customers because I believe the bureau data at this point in time would be inconsistent?

Udaya Kumar Hebbar: Yes, the bureau data is now gradually getting stabilized. Even we have started submitting data from September onwards. Only thing we may not get the DPD data, but we do not have challenge from operation process point of view. Earlier we were taking group of 10 people, which now we take 5-6 members per group. From every centre 4-6 or 6-8 people meet alternatively. Third, we are now not asking the customer to come to branch because we do not want them to travel in public transportation, so all the processes are done at the field and then the money is directly transferred to bank account. By large we do not have too much of difficulty in managing things so the other way there is no major change in the processes. Our existing process of what you call cash flows checking, visiting customer's business place, GRT, CGT everything intact we are doing it.

Umang Shah: Okay all right. That is helpful and one last data keeping question Sir what was the accelerated provisions you mentioned during your opening remarks were made during the quarter on a consolidated basis?

Udaya Kumar Hebbar: Additionally, Rs.66 Crores so overall total provisioning is about 5.35% now.

Umang Shah: At the consolidated level?

Udaya Kumar Hebbar: At the standalone here.

Udaya Kumar Hebbar: It is additional Rs.66 Crores made for CAGL about Rs.25 Crores made for Madura. Madura's total projecting is 4.8% and CAGL total project is 5.35%.

Umang Shah: Okay all right perfect. Thank you so much.

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

Sarvesh Gupta: Sir first question is on collection efficiency so post the moratorium you would have restructured the loans for a longer tenure right for most of the customers so that would have probably resulted in a higher demand figure for September and October but it does not look to be the case as per the slide so can you please explain what all has happened post moratorium I mean how has your demand grown per month?

Udaya Kumar Hebbar: No there is no restructuring of loans, actually it is only the extension of the tenure without increasing the installment for the customers so therefore demand would not change.

Sarvesh Gupta: And secondly from September to October I would have probably expected a higher acceleration in your collection per month against the demand of that particular month but that does not seem to be the case from September to October although we were hoping for a much higher figure so any apart from this temporary slowdown in the first half any other reason??

Udaya Kumar Hebbar: Yes as I told in my opening remarks we expected little higher but by the middle of the October we faced the cyclonic floods in the many districts of Maharashtra and Karnataka where in one week we could not go because of floods and then next week was festivals. So this impacted a bit in the month of October. Further in Chhattisgarh intermittent lockdown was imposed in the month of October so that is why Maharashtra and part of Karnataka and Chhattisgarh we did not see a high improvement in month of October so that is why there is no significant change between September to October whereas other places anyway we are more than 92%.

Sarvesh Gupta: Okay and given the things stand right now and I see that your total ECL is around 5.35% on standalone and 4.3% on MMFL so I mean what is your expectation assuming that things settle down by March 31, 2021 and what is your expectation of the overall credit cost for this year and do you expect write-backs on this provisions that we have taken?

Udaya Kumar Hebbar: We have to see I mean this entire quarter to take a decision on whether it is not possible or not but our expectation is to come to near normalcy by December and itself so to large extent in all states except Maharashtra which would take maybe one or two months more to come to normalcy. Our overall credit cost should be hovering around 3.5-4% with majority of the credit cost would fall into this financial year and maybe some part will fall into next financial year. We will get more clarity by end of December.

Sarvesh Gupta: But that you have already undertaken COVID provisions, so are they more or less over for you with this quarter?

Udaya Kumar Hebbar: To large extent yes.

Sarvesh Gupta: Okay Sir understood and all the best for the coming quarters.

Udaya Kumar Hebbar: Thank you.

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

Nidhesh Jain: Sir firstly on the non-paying customer in the month of October should we expect that number is 76% or 78% or some of the customers were paid in September also have become non-paying in October.

Udaya Kumar Hebbar: There is very small number of people who have not paid in October, but customers who were paying in September but paid in October is higher. There is very small number who have not paid in October because of some intermittent issues for them but we feel those also will come back.

Nidhesh Jain: So why the optically collection efficiency number is not inching up because if these 20% of 8% paid automatically collection efficiency should at least increase to 90%?

Udaya Kumar Hebbar: It is because of two reasons, one is unseasonal floods and second is the date change for collections due to festivals which also impacted some customers because previous week they would not have paid because of floods and next week because of date change, that is why we say it is very temporary for the second half of October.

Nidhesh Jain: Sure Sir and when you say credit cost of 3.5% to 4% that includes Q4 FY2020 this is the total COVID related cost?

Udaya Kumar Hebbar: Exactly. Actual cost I mean it can be bifurcated between this year and next year but majority will be this year but overall cost for the event will be around there.

Nidhesh Jain: And Sir can you share the stage 2 number as of September 2020?

Udaya Kumar Hebbar: Maybe I think it is about Rs.526 Crores reflecting customers who have not paid any instalment

Nidhesh Jain: That is it from my side.

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

Roshan Chutkey: Sir for these non-paying customers in the month, you have about 8% in total? So their loans have also been rescheduled because they have not paid two EMI's. If they do not pay then they will become NPA once they cross the time.

Udaya Kumar Hebbar: These loans are not rescheduled. This is actually post moratorium, the new income has started for them, but they have not started payments still. Obviously they will become NPA because the time if they do not pay. We are not seeing a restructuring option at least at this point of time till at least November 28 because if they are not able to pay for three months and it is definitely a risk for us to reschedule that we have to be extremely careful so we will definitely follow up and see if they can start paying from now as I said earlier when I say 88% which includes the existing GNPA before March before the COVID so if we exclude that it is only 5% or 6% of customers actually not paid anything to us so far we expect many of them will come back in November and December.

Roshan Chutkey: Thank you so much.

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

Renish Patel: Just a follow-up on the credit cost part so 3.5% to 4% is COVID related or this is including the normal run rates?

Udaya Kumar Hebbar: We are talking about COVID related.

Renish Patel: Normal run rate would be over and above this right Sir?

Udaya Kumar Hebbar: Yes, you are right.

Renish Patel: Just to ask one more question of that. What sort of steady state credit cost would like to build in going ahead taking the experience from the past event so what sort of steady a credit cost you expect going ahead on a steady state basis?

Udaya Kumar Hebbar: Normally in microfinance the credit cost used to be about 0.5% but this trend changed after the demonetization because customer understood that they can pay a little late and then they can, may not pay some time so it has moved to about 0.8% to 0.9% after the demonization. This year is another long event and with the moratorium effective by customer we can expect a slight change in the behavior of customers because of the event so on a long term credit cost will be between 1.21% and 1.25%.

Renish Patel: Okay basically 20 to 30 basis points sort of increase in the number because of change in customer behavior?

Udaya Kumar Hebbar: Exactly.

Renish Patel: Okay, right Sir, and just sir last question on this nonpaying borrower pool. So you have rightly mentioned that we have not yet restructured the loans, but we would have definitely revised the EMI and it is not that extended the tenure also. So sir this non-paying customer pool essentially would be from the state of Maharashtra, or maybe couple of other larger states. So is there any let us say a geographical or district concentration which is not yet sort of fully recovered or maybe the type of activity they are into so maybe a more color on what sort of geographies they belong to, or maybe what sort of activities they are into?

Udaya Kumar Hebbar: Majority as you said it is Maharashtra and particularly Southern Maharashtra, there is a reason also this same geography which is basically southern Maharashtra which impacted last year Q3, Q2 because of floods and then by the time it is recovering it hit my COVID and then the five months locked down almost and against such, and then the crop losses. So that is a geography which is a little impacted and which will take little more time, but we are very confident being even the last year flood it took some time, but all have come back we are almost come back to

95% kind of thing by March and then same thing with this is we are expecting again. So that particularly three, four districts in Southern Maharashtra and the two districts in Coastal Karnataka which was already impacted the same customers probably would not have paid. So, but for that we are not seeing any other distractions for us.

Renish Patel: Okay, so essentially this seven, eight districts is essentially consisting this 8% nonpaying pool.

Udaya Kumar Hebbar: Majority.

Renish Patel: Thank you Sir.

Moderator: Thank you. The next question is from the line Niket Shah from Motilal Oswal Asset Management. Please go ahead.

Niket Shah: I just had one clarification when you said credit cost of 3.5-4% we should add another about 50 to 70 basis points of normal credit cost right. So it will be about close to 4.5% for this year.

Udaya Kumar Hebbar: Yes

Niket Shah: Right, so you have adequate amount of provision already being made right on account of COVID. So safe to assume that from third quarter onwards the credit cost will be more normalized in that side.

Udaya Kumar Hebbar: Yes, there could be temporary increase between December and March or can come down also a possibility. So our sense significant requirements have been already covered, even if there is a requirement it could be very, very small based on the growth of the portfolio.

Niket Shah: Correct so I am just trying to understand that from third quarter onwards the run rate should be less than 1% credit cost on a quarterly basis.

Udaya Kumar Hebbar: Yeah, we expect that.

Niket Shah: Thank you Sir.

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

Saikiran Pulavarthi: Hi sir, just continuing on one of the earlier questions. You mentioned that stage two based on 15 day or basis is 526 Crores as of September 2020. This is for standalone credit access right.

Udaya Kumar Hebbar: Yes, standalone is correct you are right.

Saikiran Pulavarthi: Got it and sir how does this number look, if you have to look at on a 30-day basis probably on October because there is some sort of an I think conclusion we are going to look at based on the September collection and then out of the September what percentage of the people had given the numbers. So as we have repaid back, but if you have to look at as of October 31st what percentage of your portfolio might be 30 day overdue?

Udaya Kumar Hebbar: We have not taken that October number as of now cycle and maybe we can we can take that as a separate question right now we just completed the September number we only had, I mean, looking at how many customers paid back, so that we can update it to you. So if we get, then if we have not yet taken.

Saikiran Pulavarthi: And then my second question what is the update in terms of the merger process in terms of regulatory approvals.

Udaya Kumar Hebbar: We have to go to SEBI for approval I think that some rule came in saying that for the unlisted company we have to have an audited balance sheet to apply. So we have completed that process also by this week or next week because all that this audit are completed next week we will be applying to SEBI on the regulatory requirement and the merger process is already on because that is why that is explained earlier we have appointed PWC working with the both companies leadership team and creating workings to align with the process, policies, product, technology, governance, audit, everything and that is already in process. For a legal merger point of view, so we are expecting to apply next week itself.

Saikiran Pulavarthi: Probably from there on six to seven months Sir.

Udaya Kumar Hebbar: We expect to do in about six months time, but eventually it is a black box, but our expectation to complete this before we are expecting that mark, but maybe at least for Q1 we should be completing the process.

Saikiran Pulavarthi: Thank you.

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

Akshay Ashok: Sir I am not able to understand this activation percentage what do you mean that this activation percentage in October which means percentage of people who have not paid or started paying is it, is that what you are thinking.

Udaya Kumar Hebbar: See these are people who had not paid in September, but started paying in October.

Akshay Ashok: So 22% from Karnataka who did not pay in September started paying in October that is what is there.

Udaya Kumar Hebbar: Correct you are right.

Akshay Ashok: And then this Maharashtra number is 81% because of this works and other situation like that that is the reason why the collection is low.

Udaya Kumar Hebbar: No, Maharashtra was under lockdown till end of September from March actually, we will say there is a delay in customers starting their economic activity evens today the public transfer still not fully available in Maharashtra. So the economy impact is quite long period and because of the longer lockdown. So that is why there is some delay in people coming back to normalcy. So we expected Maharashtra should take little more time, we will say the recovery time is little longer for Maharashtra. So that is the reason. Clearly that is intermittent and active.

Akshay Ashok: But the aim is to get the collection efficiencies between 98%, 99% that close to be the pre COVID level collection efficiencies right what will be the timeframe which you look to achieve that at least by the year end hopefully.

Udaya Kumar Hebbar: Yes, we hope that the large extent we will be near normal, in other states by December itself and by maybe Maharashtra will be by March end or so, so that it will be definitely more than 97%, 98% to the extent.

Akshay Ashok: Then last question I just wanted to know about the borrowings how much total borrowing is via NCDs. Commercial paper was done for 200 Crores, I remember and what is the total NCD borrowing.

Udaya Kumar Hebbar: NCD is about 341 Crores.

Akshay Ashok: What is the permission you have taken by the board and how much to borrow via NCD, you have taken right in 1000 Crores.

Udaya Kumar Hebbar: I think it is about 3000 Crores I think. I think about 3000 Crores.

Akshay Ashok: Thank you Sir.

Moderator: The next question is a follow-up question from the line of Roshan Chutkey from ICICI Prudential Mutual Fund. Please go ahead.

Roshan Chutkey: Just wanted to understand this one you are referring to having some more provisions to be made in FY2022 also and I do not know I am sure because it looks like you mentioned in the previous reply, you are done with bulk of the provisioning at a one edge and Q3 onwards you should more or less stick to regular credits or chances surprises right.

Udaya Kumar Hebbar: I talked about write-offs which can happen between this year and next year, and not the provisioning.

Roshan Chutkey: I told credit cost which can be what mixture for next year that means there will be a write off point of view I told that it can be spread into two financial years maybe if I am clear I think.

Udaya Kumar Hebbar: Right now this is what I am taking to during the two years.

Roshan Chutkey: Yes, correct.

Udaya Kumar Hebbar: The real trade cost will be when you write off the actual number right.

Roshan Chutkey: Okay understood got it. That is all. Thank you so much.

Moderator: Thank you. The next question is from the line of Rushabh Doshi from Proinvest Wealth Managers. Please go ahead.

Rushabh Doshi: I just wanted to understand like is there any major difference in accounting for CreditAccess and MMFL, like around 8% zero payment customers in September for CAGL and 7% as a group for MMFL. So can you just tell me how you account for both the entities?

Udaya Kumar Hebbar: Yes, that there is slight difference in accounting when you say CreditAccess it is at individual customer level whereas in MMFL it is at the group level at this point of time, which we have to change over a period of time. So that is why that is at a group level, where if few people in a group pay then we conclude that the group is paying. So that is where the small change between the accounting.

Rushabh Doshi: And my second question is in our joint liability group lending, how does the NPA recognition work, if in a group of 15 people, if two decide not to pay then do you make the other 13 people liable to pay?

Udaya Kumar Hebbar: Since in this COVID situation you cannot keep pressuring the customers, it is difficult to push other customers to pay. In normal times as well, joint liability is more of a social collateral, urging the customers to maintain credit discipline. The relationship between the group members is also important. Stronger the relationship, higher the chance of recovery in difficult situations.

Moderator: Thank you. We will take the next question that is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Sir just one point I wanted to get some color on from a customer behavior point of view so one is I think you mentioned that 80% of your customers have paid all EMIs, 12% have paid partial and 8% is zero payment. **S**o then we wanted to understand how are you thinking about credit cost from these partial payment bucket and the customers who have not paid anything of course this 8% has now become 6% because 24% have paid in October so this 6% plus and 12% partial paying, how are you thinking about credit cost from these two buckets. Second question from customer behavior point of view was that now that I do not know how much of group meetings and all you are doing and what is that impact on your collection as such.

Udaya Kumar Hebbar: We are able to reach out to all the groups and we are able to be connected with all the customers. So there is high comfort that the customers who already started paying will make a full payment in the coming months between November and December and the non-paying customers which is 8% and 6% now probably slowly it will also come back to 3% or 2% by the end of December. So the people already started paying partly the intention of payment is started already that is why we are confident that they will come back normally.

Sarvesh Gupta: So the guys who are partially paid you expect them to be fully compliant with their payment schedule.

Udaya Kumar Hebbar: Yes, exactly that the intention to pay right so that is where they started paying maybe as the economy improves they will start coming back to full normalcy because they also need funding afterwards. So majority of them are in as I said earlier the key districts where there was a stress because of long COVID, lockdowns and some sort of delay in economic activity like travel and tourism, places of worship and pilgrimage, local transportation, schools and colleges dependent eco-systems. So these customers will need little more time to come back to normalcy.

Moderator: Thank you. We will take our next question as a last question from the line of Niket Shah from Motilal Oswal Asset Management. Please go ahead.

Niket Shah: So just one question just to understand much better when you said credit cost of 4.5% to 5% you included the fourth quarter as well right.

Udaya Kumar Hebbar: Yes.

Niket Shah: So what will be for this year itself if you can just give us some broad sense I mean should we subtract the fourth quarter end arrive at the conclusion for this year number.

Udaya Kumar Hebbar: Yes, with respect to COVID specific credit cost. In addition to this there will also be some provisioning as a part of normal business growth. Overall, we believe to have taken majority provisions and we shall review the situation in December quarter.

Niket Shah: So what should be the AUM growth that we would be now looking at for this year and second half and next year.

Udaya Kumar Hebbar: I will say it is difficult to get the exact number but we should be able to do a low double-digit growth.

Niket Shah: Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now have a conference over to Mr. Abhishek Murarka for closing comments. Thank you and over to you Sir!

Abhishek Murarka: Thank you Aman. Thank you everybody for participating on the call and a big thanks to the management for letting us post it. Thanks everyone have a great weekend and all the best to the management for the next quarter.

Udaya Kumar Hebbar: Thank you very much. Thank you everybody. Take care and good night.

Moderator: Thank you all. Ladies and gentlemen on behalf of IIFL Capital Limited that concludes today's call. Thank you all for joining us and you may now disconnect your lines.