CreditAccess Grameen Limited

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Ref: CAGL/EQ/2025-26/21

May 21, 2025

To

BSE Limited	**National Stock Exchange of India Limited**
Phiroze Jeejeebhoy Towers	**Exchange Plaza, C-1, Block G**
Dalal Street	**Bandra Kurla Complex, Bandra (East)**
Mumbai - 400001	**Mumbai - 400051**
Scrip code: 541770	*Symbol: CREDITACC*

Dear Sir/Madam,

Sub.: Transcript of Conference Call for Q4 FY25 Results

Pursuant to Regulation 30 and Regulation 46 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of Q4 FY25 Results Conference Call, held on Friday, May 16, 2025.

The same is also available on the Company's website at: www.creditaccessgrameen.in.

This is for your information and records.

Thanking you,

Yours' Truly
For **CreditAccess Grameen Limited**

MATADA JAYAKUMAR MAHADEV PRAKASH
Digitally signed by MATADA JAYAKUMAR MAHADEV PRAKASH
Date: 2025.05.21 11:29:41 +05'30'

M. J. Mahadev Prakash
Company Secretary & Chief Compliance Officer

Encl. As above

"CreditAccess Grameen Limited
Q4 FY25 Earnings Conference Call"

May 16, 2025

MANAGEMENT: **MR. UDAYA KUMAR HEBBAR - MD, CREDITACCESS GRAMEEN LIMITED**
MR. GANESH NARAYANAN - CEO, CREDITACCESS GRAMEEN LIMITED
MR. NILESH DALVI - CFO, CREDITACCESS GRAMEEN LIMITED
MR. SAHIB SHARMA - DGM (INVESTOR RELATIONS), CREDITACCESS GRAMEEN LIMITED

MODERATOR: **MR. RENISH BHUVA - ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to CreditAccess Grameen Limited Q4 FY25 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Renish from ICICI Securities. Thank you and over to you, sir.

Renish Bhuva: Yes, thank you, Sagar. Good evening, everyone, and welcome to CreditAccess Grameen's Q4 FY25 Earnings Call.

On behalf of ICICI Securities, I would like to thank CreditAccess Grameen's Management Team for giving us the opportunity to host this call.

Today we have with us the entire top Management Team of CreditAccess Grameen represented by Mr. Udaya Kumar Hebbar – Managing Director; Mr. Ganesh Narayanan – Chief Executive Officer; Mr. Nilesh Dalvi – Chief Financial Officer, and Mr. Sahib Sharma – DGM (Investor Relations).

I would like to hand over the call to Mr. Udaya Kumar for his opening remarks and then we will open the floor for Q&A. Over to you, sir.

Udaya Kumar Hebbar: Thank you, Renish. Good evening to all. We are pleased to welcome you to the conference call to discuss our 4th Quarter and FY25 business performance.

This year has been transformative for the microfinance industry, defined by the simultaneous unfolding of diverse internal and external forces. The microfinance industry has been tested by a complex set of challenges, including extreme heatwaves, operational limitations due to prolonged elections, growing customer overleveraging, ringleader issues, tighter underwriting resulting in multiple MFIN guardrails, and temporary disruption stemming from the Karnataka Ordinance targeting unregulated lending practices.

The rising delinquency trend in the microfinance industry, which began in April 2024, peaked in November 2024, subsequently reversing till Mach 2025. We are already witnessing new PAR accretion rate largely getting normalised across all states, excluding Karnataka. While we expect the new PAR accretion rate in Karnataka to normalise by the end of Q1 FY26. Through every challenge, CA Grameen has emerged stronger, proving the resilience and sustainability of the model that we have created.

We witnessed a declining new PAR accretion rate across all states, partially offset by elevated delinquencies in Karnataka during Q4 FY25. In all states, the turnaround story has been continuing since the November 2nd half, driven by reduced leveraging, improved ground- level situation, high customer connectivity, expansion of our employee base, enabling more frequent and disciplined follow-ups. Combined with targeted support from our Business Support Team (BST), this strategy delivered stronger recovery outcomes across delinquent accounts. We observed encouraging traction in collections from PAR buckets, with 40% of borrowers in PAR 1–60 and 10% of borrowers in PAR 60+ making partial payments. As guided, we strengthened our employee strength from 19,333 in December 2024 to 20,970 by the end of March 2025. Importantly, we maintained a firm grip on employee retention, achieving an annualised attrition rate of 30.5% in Q4 FY25, amid high churn across the industry.

The revised FY25 growth guidance of 7-8% issued in January 2025 was impacted by incremental stress emerging from Karnataka. This stress became visible from the last week of January 2025 because of operational ambiguities in anticipation of the ordinance, on-ground hostile environment, media & political sensitivities, and collections being limited to centre meetings. It is important to highlight the role of MFIN in serving as a unified voice for the microfinance sector in such a situation. They proactively engaged with the Government of Karnataka, the RBI, and other stakeholders, demonstrating the sector's commitment to strong governance, customer protection, and regulatory compliance. Their leadership ensured that the Ordinance focused on addressing unregulated entities with minimal impact on the legitimate operations of regulated institutions.

Despite these challenges, the majority of borrowers continued to repay, reflecting underlying customer resilience. However, disbursement momentum was affected as we prioritized portfolio stability over growth, with disbursement rates dropping to 57% in February and 65% in March as a proportion of the normal rate. While these factors altered Q4 FY25 growth plans, they were necessary to navigate the evolving environment responsibly. As a result, our growth, credit cost, and profitability parameters are not in line with revised guidance.

We added 2.61 lakh borrowers in Q4 FY25, of which 43% were new-to-credit, with the FY25 new borrower addition count at 7.49 lakh. The New-to-credit % trend has increased from 30-35% to 40-43% levels over the past couple of quarters, demonstrating the underlying potential of the microfinance business across the country. As a result, our unique borrower count has increased from 26.3% in August 2024 to 31.1% at the end of March 2025. We opened 100 branches during the year across well-established markets and newer geographies. Our 'Evolve with Customer' strategy is helping deepen our customer engagement, with Retail Finance reaching INR 1,543 crore, contributing 5.9% of the AUM, compared to 2.7% a year ago.

MFIN guardrails coupled with our internal policies, including a three lender INR 2 lakh unsecured indebtedness, declined from 19.1% in August 2024 to 10.8% in March 2025. But then the average total unsecured debt of CA Grameen borrowers has declined 14% YOY, while average monthly obligations have declined by 10% YOY.

Now I am referring to slide #12. It is important to see PAR 15, both at the company level and excluding Karnataka. In the case of borrowers with 4-lenders, PAR 15, excluding Karnataka, remained the same at 11.7% QoQ. Similarly, PAR 15, in case of borrowers with more than 4-lenders, excluding Karnataka, stood at 27.2% in Q4 FY25 versus 26.1% in Q3 FY25. Out of the overall PAR 15 of 6.6%, 41% of the account of borrowers with more than 3 lenders. Our accelerated write offs initiated in Q3 FY25 alongside a prudent provisioning strategy have advanced the cleanup of trust exposure within the book. We have taken INR 479 crore accelerated write off in FY25 of non-paying loan accounts with 180 plus DPD, resulting in additional credit cost of INR 151 crore. The total write-off of FY25 stood at INR 1,124 crore.

Overall, the company continued to hold 179 bps, that's about INR 457 crore higher provision over PAR 90, 370 bps or INR 959 crore higher provision compared to IRAC prudential norms, and INR 98 crore higher provision compared to NBFC provisioning norms.

The credit cost stood at INR 583 crore for Q4 FY25 and INR 1,929 crore or 7.7% for FY25. The deviation in the credit cost compared to the revised guidance was primarily due to the Karnataka issue. Our collection efficiency (excluding arrears) stood at 91.9% for Q4 FY25 while being 92.4% for the month of March 2025. PAR 90 stood at 3.28%, GNPA of 4.76%, and NNPA at 1.73%, both predominantly measured at 60-plus DPD.

The net interest income grew 1.7% QoQ to INR 876 crore with portfolio yield at 20.4% and interest spread of 10.3%. Our average cost of borrowing has remained stable at 9.8% for the last seven quarters. In Q4 FY25, we raised INR 3,144 crore, including USD 50 million through the ECB route from the International Finance Corporation (IFC). The share of foreign borrowings stood at 21.0% at the end of FY25, firmly moving towards FY 2028, medium-term strategy of sourcing 25% to 30% of funds from foreign sources.

NIM remained healthy at 12.7% for Q4 FY25 while 12.9% for F25, in line with our revised guidance. Cost-to-income ratio was at 31.9% while PPOP stood at INR 634 crore in Q4 FY25 and INR 2,638 crore in FY25. Our accelerated rate of approach has certainly impacted Q4 FY25 profit, which stood at INR 47 crore, though it will help safeguard our profitability going ahead.

The liquidity levels, including cash and cash equivalents, remain adequate at INR 2,336 crore, amounting to 8.4% of total assets. Additionally, we have sanctions in hands of INR 3,618 crore and INR. 4,664 crore worth sanctions in pipeline. The capital adequacy remained comfortable at 25.4%.

Amid the multiple headwinds faced in FY25, we delivered ROA of 1.9% and ROE of 7.7%. Our cross-cycle performance of ROA of 3.6% and ROE of 14.4% over the past 8 years is a testament to disciplined execution and consistent value creation. We are well- poised for FY26 on the back of stabilizing asset quality and improving business momentum.

As we look ahead in FY26, we must carefully balance both asset quality normalization as well as business growth. With a more balanced competitive intensity in the industry supported by MFIN guardrails, we see a good opportunity to leverage our strong balance sheet and capital position to drive business growth. Our retail finance division will prove to be a strong growth accelerator going forward. However, we also need to be cognizant of various industry challenges in the form of higher delinquencies, managing the productivity of loan officers, reduced credit supply for microfinance customers, and the temporary impact of any potential state government regulation in lines of Karnataka.

Considering the evolving business environment, we are aiming for an AUM growth of 14% to 18% of which MFI growth will be 8% to 12% and the balance will come from retail finance. NIM of 12.6% to 12.8%, Credit cost of 5.5% to 6%, ROA of 2.9% to 3.4%, and ROE of 11.8% to 13.3% in FY26.

Before I hand over the forum for the Q&A session, I would like to inform you all that I shall be retiring from my role of Managing Director on 25th June 2025. With effect on 26th June 2025, I shall be appointed as a non-executive Nominee Director, subject to necessary approval from applicable authorities and shareholders. I shall also be appointed to the Managing Board of CreditAccess India B.V., the Holdco, to support the group.

Further, our CEO, Mr. Ganesh Narayanan, shall be appointed as Managing Director & CEO for a period of five years with effect from 26th June 2025, subject to necessary approval from the Reserve Bank of India as well as shareholders of the company.

We look forward to your continued support as we take our company into the next higher orbits of growth. Thank you for your patience.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question comes from the line of Rajiv Mehta from YES Securities. Please go ahead.

Rajiv Mehta: Sir, hi. Good evening. Just a couple of things. Sir, when I look at the ECL coverage, I think they seem to have come down across Stage 1, 2, and 3 assets in this quarter versus the previous quarter. If you can just throw some light about has there been any revision in the ECL model and then what levels of ECL coverage have been carried forward in the guidance of the credit cost. Second is on, when I look at, even excluding Karnataka, when I look at the other geographies and when I look at their monthly PAR-15 accretion rates, they are still 20-30 bps above, exactly one year back in March and April. So when we give out the guidance of a certain credit cost, while you've broken up the guidance of credit cost, are we factoring that this 20-30 bps of slightly above normal accretion trend to further normalize or you have taken that this will be the new normal credit cost?

Udaya Kumar Hebbar: Thank you, Rajiv. In the case of ECL coverage, there is a minute change where in the Stage-3 borrowers who are paying more than 50% of the EMIs, we have taken a little lower credit cost based on our earlier experiences. Therefore, you would see about 2% variation in the total ECL coverage. However, this coverage is based on 60-day DPD not 90-day DPD. Therefore, there is no large variation. This is one on the ECL coverage.

Rajiv Mehta: Even the ECL coverage of Stage-1 and Stage-2 assets has come down?

Nilesh Dalvi Rajiv, Nilesh here. So, on Stage-3, as Udaya said, obviously, on the partial paying customers, we have taken a lower ECL in line with the approach we had taken even in earlier times. In Stage-2, you see the ECL has come down because there is a higher proportion of delinquency from Karnataka. And Karnataka historically has a higher number of low-risk and medium-risk districts. So that's where as you know that our ECL percentages vary, this is the district level risk profile. So that's where the Stage-2 percentage has come down.

Udaya Kumar Hebbar: The low-risk customers and low-risk geographies, because we analyze at the district level, sometimes show high delinquency rates. That's what the change is. On the other geographies, what we said is largely compared to normalcy. However, when we give the guidance, we can see the slide where the guidance is mentioned. We took 3.0-3.5% as the normal credit cost for this financial year. We captured slightly higher for this financial year. Therefore, it's already captured within the guidance that we made.

Rajiv Mehta: And sir, there is a slide mentioning that you are seeing improvement in center meeting attendance. So if you can just throw some light to what kind of improvement that you are seeing in terms of maybe percentage of attendance in the meetings? And employee additions which we have done in Q4, so if you can highlight in which functions, where are these employees added and which geography?

Udaya Kumar Hebbar: Largely, employees are added in the particular state of Tamil Nadu. We had a little higher attrition compared earlier during Q3 FY25. So higher employees are in Tamil Nadu. Whereas other geography it is fairly common because we didn't have any large attrition in any other states. So, therefore it's a normal attrition. We will try to put a few extra employees in all the places. If we see, we have almost 8% extra employee base. This which will help us to monitor more and then have higher connectivity and to have higher follow-ups also, which will have a benefit in the coming quarters. And in case of central attendance, largely it's improved in all geography, including the geographies like Bihar, UP, Jharkhand, Odisha, also we are seeing good improvement and the people coming back to center meetings and the payment in center is increasing actually. So, we have seen visible improvement in all geographies.

Rajiv Mehta: Okay sir, thank you so much.

Udaya Kumar Hebbar: Thank you.

Moderator: Thank you. Our next question comes from the line of Shreya Shivani from CLSA. Please go ahead.

Shreya Shivani: Yes, hi. Thank you for the opportunity. You have highlighted in your presentation about the focus on the retail finance segment as well. I wanted to understand ticket sizes in this segment have reached a certain level and they've been range bound for the past four quarters. What is our outlook on how the retail finance segment's ticket sizes could move? Also, during this entire last one, the last couple of months challenges, how has the retail finance book asset quality behavior been or customer behavior been, if you can highlight these two things? Thank you.

Ganesh Narayanan: Sure. On the retail finance side, the average ticket size for our unsecured business loan is around INR 1.7 lakh. And we believe that it will be range bound. And secured business loan, the average ticket size has been around INR 5.8 lakh. INR 5.5 to 6 lakh is our model. And we should remain in that range. Home loans, the average ticket size is around INR 6.8 lakh and that's where it will remain. PAR 0 is less than 2%, PAR 30 is around 1.5%-1.9% and with respect to secure business loans, PAR 30 is around 0.89%, and home loans, it's a new book, so the PAR is almost nil.

Shreya Shivani: Correct. Got it. And sir, this segment, all of these…

Moderator: Ladies and gentlemen, the line for the management seem to have been disconnected. Please stay connected while we reconnect the management back. Ladies and gentlemen, we have the line for the management reconnected. Please go ahead, sir.

Ganesh Narayanan: Sorry, we got disconnected.I will repeat what I said. On our unsecured business loans, the current average ticket size is around INR 1.7 lakh. We believe it will be range bound around this number. And PAR 30 in this book is now 1.97%. It moved from around 1% to 1.97% predominantly because of the Karnataka effect. And in secured business loan where the average ticket size is around INR 5.8 lakh, PAR 30 is around 0.89% and in home loans the average ticket size is around INR 6.8 lakh and since it's a new book with around INR 110 crore AUM, there is almost nil PAR. I hope I answered your question.

Shreya Shivani: Yes sir, you did. Just one follow up on this. So you've always mentioned that retail finance is one segment. You are scaling up more in your lower risk districts, which will be more Karnataka and Maharashtra, Tamil Nadu, etc. But as of now, how much scope are you seeing for this business to be able to scale it up in any of your other geographies? Is there any comfort you are seeing in any other geographies? Or should we just consider that it will continue in Karnataka and the lower geographies.

Ganesh Narayanan: What we had commented upon is that we will launch these businesses in our higher penetrated geographies because there is a certain amount of customer base, the model revolves around evolving with the customer. From that perspective, the book is now in Karnataka, Maharashtra, Tamil Nadu, and Madhya Pradesh. During the year, we would probably look at a few more districts and states where we have a higher presence. The unsecured business loan is roughly in around 730 branches out of the 2,063 branches. So, this has scaled up slightly. With every moving year, we scale this up, all these products will move to newer states.

Shreya Shivani: Got it. This is very useful. Thank you and all the best.

Moderator: Thank you. The next question comes from the line of Shweta from Elara. Please go ahead.

Shweta: Thank you sir for the opportunity. Sir, a couple of questions. So was looking at Bihar geography slide and the GLP or borrower base that has declined significantly in Bihar. Even the branch network has remained steady state. PAR numbers and all are function of base. But we are of the understanding that it's the over-leveraged borrower base that had caused a mess in Bihar. Is there anything more to read that is bothering you wherein you are sort of declining your further penetration into Bihar? That's question number one. Second, can you provide some color on the borrowers with over 3 lenders accounting for 41% of overall PAR-15 as in from the regional geographic perspective or from the segment perspective? Third observation is the marginal cost of borrowings have spiked quarter-on-quarter. In fact, where we started off at 9.3%, now it's 9.6%. So how do you see this? Because you mentioned about liability mix being slightly nimble in your opening remarks. So from that perspective, how are you perceiving marginal COB? Thank you.

Udaya Kumar Hebbar: Shweta, thank you for your question. So marginal cost is basically what we borrowed during the quarter. There we borrowed significantly from the IFC. Therefore, the average cost of marginal cost for the quarter was little higher than compared to the earlier borrowings. But still it is lesser than the average cost of borrowing. The average cost of borrowing is 9.8%. Marginal cost is the borrowing what we made in Q4 stood at 9.6%. Still, it won't impact the overall cost of borrowing. There is one large borrowing we did from the international market. That's why it's slightly higher. Therefore, the average was slightly higher.

The second question is about Bihar. Yes, Bihar, a portfolio has come down to some extent because we took long steps during September to March, kind of September to January to handle with care, to protect the portfolio. Higher management there, higher overview from a risk audit and control side and then also the retention team. So I think those steps actually we try to protect portfolio quality instead of growing during that period. Therefore, there is just a slight decrease total GLP. The reduction of customer is basically because of write off, it's the accelerated write off. Majority part come from that geography. Therefore the number of customers came down. But we already started growing. I think in the months of February month, we started scaling up with the new controls, additional controls, with a little lower ticket size. And then we implemented the new customer controls quite ahead of time, before MFIN guardrails. I think it is growing well now. And we are not withdrawing or reducing anything. We will continue to grow and penetrate there. But with higher controls and systems. We don't see any challenges. Things are better now.

Ganesh Narayanan: There is one point on Bihar. Temporarily we also had certain people challenges. We had manpower shortage. That has also been corrected now. And that is why you will see the reversal in Bihar is quite strong.

Udaya Kumar Hebbar: Reversing trend of delinquencies is quite strong, quite fast. So we are quite fine there now. And the other one is of the borrower with more than three lenders in the under PAR-15 right? So it's 41% of PAR-15. It is a very insignificant number it's not very high actually but it is coming down slowly. We see that's the reason why we actually provided that. Which state which is high I don't know maybe largely in the northern belt. You have any data in that?

Nilesh Dalvi: So Shweta largely it will, like what we have shared earlier we have a higher proportion of unique borrowers in our core markets and obviously in the newer markets wherein we have entered over the last 2-3 years there the proportion of borrowers having more than having 2 or 3 or 4 lenders that proportion is obviously relatively higher than compared to our core market. Since you are referring to Bihar, yes in Bihar a larger number of customers will fall within the 0-to-4-year vintage and that is where those borrowers in case they are having more than three lenders, where the PAR contribution will be more. So overall PAR in Bihar, if you see it is 12%, then obviously at a company level, if more than three lenders are accounting for say 40%, then in Bihar it will be slightly higher. But overall, it's more of a broad-based depending upon the vintage and the overlap of what we have across different states.

Udaya Kumar Hebbar: So to be clear Shweta, this set of customers is about 2.5% of the overall customers of the company.

Nilesh Dalvi: The purpose of the data point Shweta was to highlight that the entire issue is not because of over leveraged customers. So the point was that 40% of PAR is because of over leveraging but the balance 60% PAR is because of the business-as-usual factors in addition to various other factors what we witnessed over the last 12 months in the form of income variations or heat waves, migrations, ringleader issues etc. So various factors have been playing out in addition to over leveraging fact. That's the point we wanted to highlight.

Shweta: Thank you. Thank you for elaboration and best of luck.

Moderator: Thank you. Our next question comes from line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Good evening, sir. Thank you for taking the question. First thing is just trying to understand in our FY26 guidance, we spoke about this 8-12% kind of growth in the group lending business, the JLG business. And you also highlighted this is because of some accelerated write-offs which are expected in H1 FY26. I am just trying to understand why this year the growth is low? What credit can we start seeing the group lending business growing, maybe from FY'27 onwards? So asking this because, I mean, we understand what the industry has gone through. And to that extent now, I mean, after some of this stress from over-leveraging is behind, then at what rate can the industry be growing and within that what could our growth look like in the group lending business?

Nilesh Dalvi: Abhijith, hi, Nilesh here. See the guidance what we have given for next year in group lending, which is 8-12%. So obviously, some extent there will be an impact of write-offs what we will be taking. And if you see when we had given the guidance in month of January, at that time we were anticipating that we will be doing the cleanup by the end of June. However, because of the Karnataka issue, maybe it will get extended by another quarter and it will go to September. So predominantly whatever write-off which will happen in the next financial year, the larger portion of that will happen in first half. That is where you will see the overall growth will be little flattish in the first half, ex of write-off. Obviously we will cover it up in the second half wherein the write-offs will be more normative in nature. From the growth perspective, obviously the customer additions, renewals, everything will happen. But yes, because of the write-off, we will see a flattish growth in group lending business in the first half and it will catch up in the 3rd and 4th Quarter. So, largely on a steady state basis, Abhijit, as we had said earlier, microfinance, 14-15% growth on a steady state basis is what we will always look for and including retail finance, it will go to 18-20%. Next year, that 14-15% is a little less because as we come out of the current crisis and obviously, the impact of write-off.

Abhijit Tibrewal: Got it. This is useful. And then the second question that I had was, I joined a little late. Have you already covered what we are seeing in Tamil Nadu after the introduction of the bill? Now, why I ask this is that very often we try to understand that, I mean, what we saw in Karnataka, we saw some bit of it growing in media, whether we talk about some news flow around suicides in Karnataka and then the Karnataka ordinance. But I think from what I gathered by speaking to a few other MFIs, is also the fact that no one saw this Tamil Nadu bill coming while everyone acknowledges it is not really applicable to regulated entities or MFIs for that matter. So the related question is A, what is happening in Tamil Nadu today? What is it that you seeing? And the other thing is, are there any other states except let's say Karnataka or Tamil Nadu, where there are some problems today and going forward, there could be some such ordinances or ordinances to get passed?

Ganesh Narayanan: In Tamil Nadu today, ground level, there is absolutely no change or no impact as on date. However, we would be mindful, probably we would be proactive in engaging with customers better. But at the ground, there is absolutely no impact at this point. And with respect, it's going to come in any other state, I think we will have to kind of from our perspective, we don't see anything as a signal or sign anywhere at this point of time. But we will have to wait and watch.

Abhijit Tibrewal: Got it. And then the noise is there. There is more noise, but you are not seeing any impact on your collection efficiencies or PAR accretion just yet.

Ganesh Narayanan: Absolutely nothing. We have not heard this from anybody else also. Not necessarily just us.

Abhijit Tibrewal: Got it, sir. And then, the last question I had is obviously we can't control what happens in specific states, right? But I mean, this this whole mini credit cycle so as to say that we went through this year, whether we call it because of over leveraging heat waves, maybe Tamil Nadu, some unseasonal flooding cyclones. Is at least that part excluding what is happening in specific states? At least that stress, it now at least at the fag-end or is it now behind us as we move into the next year?

Ganesh Narayanan: That's how it looks for us and hence we are saying that probably we would have a good second half. And we have also had a good monsoon. There are no other signs at this point of time which is kind of worrying us or which is going to stress us apart from coming out of Karnataka at this point of time.

Abhijit Tibrewal: This is useful. That's all from my side and I wish you and your team the very best.

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

Nidhesh Jain: Thanks for the opportunity sir. First question is on the credit cost. What I gather is that on a steady state basis also we are seeing that the credit cost of the business will be higher than what we were anticipating before this crisis. So how are we planning in terms of yields, margins to negate the impact of higher credit costs in the future, let's say in F27 and beyond?

Udaya Kumar Hebbar: I think what we envisaged earlier also in May 2024, that there could be higher credit costs. But for the next quarter, we assume that it will be about 3.0-3.5% for the financial year, which is a normal credit cost for the year. That's what we are expecting. We need to review later after the year end, maybe 3-4 quarters down, we will review for the future years. And our district-based pricing and district-based what you call the ECL modeling will help us to have a reasonable, what you call, moderation of yields, will not have too much negative impact to us because if the credit cost goes up in the district, the price also will go up to some extent. So therefore, it will not impact on the yield. That is why our guidance, NIM and yield are not actually different. It remains the same. Impact is only to the extent of the reversal because of delinquency. Otherwise, it remains the same. So therefore, we are not seeing too much impact on the pricing or our credit cost impacting our yields.

Nidhesh Jain: I am asking that in case the credit cost remains elevated at 3%-3.5%, so whether there will be a yield increase on the new loans that you will be disbursing because the risk has increased?

Udaya Kumar Hebbar: It will not be on every loan. Based on the higher risk, we would actually increase the price. Or if there is a lower-risk district, we may reduce the price also.

Ganesh Narayanan: Also, the pricing model has a slightly longer tenure. It has to run through the tenure to show the impact on pricing. So we may not react immediately, but we will have to see the time period in our pricing policy, how the pricing moves, and if there is anything that can be slowly passed.

Udaya Kumar Hebbar: Correct. And also there is other impacts in terms of the cost of borrowing impact. That's also a declining trend is there. I think reasonably we will be able to manage it, decent stable NIM and yields.

Nidhesh Jain: Sure, and secondly can you share the retail finance breakup in terms of secured and unsecured?

Ganesh Narayanan: So, the unsecured AUM is INR 1,100 crore odd. So, the overall mortgage book is INR 350 crore. Secured business lending is around INR 240 crore and home loans is around INR 110 crore. Total RF book is INR 1,543 crore.

Nidhesh Jain: Sure. And just last question is that, so we have shared a lot of data on customer leverage, etc. But if we include other retail loans for our customer base, what percentage of our customers will have other retail loans other than microfinance and unsecured loans?

Ganesh Narayanan: If I remember, right, the overall retail loan is around 40% plus. But majority of that has consistently remained for years in gold loan. The rest of them single single-digit numbers.

Nidhesh Jain: Okay, sure. Thank you. That's it from my side.

Moderator: Thank you, Our next question comes from the line of Chinmay Nema from Prescient Capital. Please go ahead.

Chinmay Nema: Good evening, sir. Sir, firstly, a slightly long-term question. Given that the stress now seems to be subsiding, how do you see or when do you see the PAR numbers basically reversing back to the normal levels as in the Q1 levels or what they were in Quarter 4 last year?

Ganesh Narayanan: I think whatever the PAR is created, it has to take its journey. So that's why we have said we will have probably a normative period in H2. So H1 will remain elevated, H2 should start coming back to normal.

Chinmay Nema: Got it. And secondly, just wanted to confirm, if I understood correctly, basically the provisioning has come down during the quarter, because you are expecting better recoveries in Karnataka. Is that understanding correct?

Ganesh Narayanan: No. Two aspects to this. One, because the PAR in Karnataka has gone up. Karnataka traditionally had a lot of lower-risk districts. Hence, the weightage has fallen, right? So there is a reduction there. And second, in Stage-3 like Udaya said, if customers are paying more than 50%, we have assumed a slightly lower credit cost because this is current repayments coming into the system. And then also the new PAR attrition has come down compared to Q3 FY25. That also in fact has reduced the overall new provisions.

Chinmay Nema: Understood, sir. Thank you.

Moderator: Thank you. Next question comes from line of Shreepal Doshi from Equirus. Please go ahead.

Shreepal Doshi: Hi sir, thank you for giving me the opportunity. My question was on firstly, why when do we see this more than 3 lender and more than INR 2 lakh ticket size customers, which currently stands at closer to 20.1% and 9.5% dropping to our expected level? That's the first question, sir. Or our targeted level rather?

Udaya Kumar Hebbar: It's difficult to have a targeted level here because these are short-term loans. If you see in past seven months there is almost 10% reduction. So it will actually go on as the MFIN guardrails will continue to be there. It will automatically come down on a normal phase as they come back to regularize the loan with the payback and close their loan. Overall, it's already coming down, the journey has begun. Maybe 2-3 quarters it will come down to an accepted level not only for us, for the whole industry also. It says that industry targeted measures to deleverage the customers. I think it's already working well and then it will continue to work well.

Shreepal Doshi: Okay, the second question was, we have given a guidance of 5.5-6.0% credit cost for FY26. But I mean, that doesn't have any buffer for any uncertainties that might come up in the state of Tamil Nadu from the ordinance that has come up. So just do you think there could be variation if something of that nature comes up? And if you think so, then should we not already provide that buffer in the guidance?

Udaya Kumar Hebbar: The ordinance, the talk about the ordinance has been there for the last one month almost. We are not seeing any impact on the ground, either to us or anybody else. Therefore, we are not anticipating anything coming practically from Tamil Nadu. There is always a comparison of Karnataka to Tamil Nadu. Maybe I will take one minute to explain why this difference. In Karnataka, what happened, there was a heightened media, police, political intervention, everything before the ordinance, and that led to the ordinance. There was a hostile situation for a month actually. By that time the delinquency was elevated and the ordinance came later with the clarity. So then slowly delinquency came down. Whereas in Tamil Nadu there is no such situation at all. It is the government on its own maybe followed the Karnataka model and tried to implement by excluding upfront the REs and the banks. So therefore we are not seeing any such heightened delinquency trend coming up there. We are not believing that at this point of time, after witnessing almost 20 days of journey, we are not seeing any such events happening there. Of course, a small variation here and there, it is we will be able to manage because that is why we said that regular credit cost may be slightly higher, which is 3.0-3.5%, which should cover this kind of very small event. The larger event definitely, the thing will change. This is subject to reasonable stable period.

Shreepal Doshi: Got it, sir. And just one last question. It's more structured in nature. So what are the changes that you see? Every credit cycle so far has taught us something at industry level and also at organization level, right? So this time around, what are the changes that you see are emerging maybe on, let's say, credit underwriting side, even on tenure structuring side, or even on the collection frequency side? I mean, such as say maybe having credit manager at branch level, do you see such changes or such operational changes being brought in by players in the industry?

Ganesh Narayanan: I think broadly every such cycle takes you back to basics. I think the fundamentals of microfinance are still intact and we need to work on strengthening processes. There was a gap in regulation for different kinds of players that has also been removed now. And the industry is working together in this challenge. So that's a very big positive thing in my view. And whatever steps we have taken, we are seeing it play out. And we are also seeing that people are mindful of expansion, people are mindful of underwriting, people are taking significant steps towards better income assessment. I think the fundamentals of lending will have to play a significant part also in microfinance as we move forward and with strong bureau data over the period of years. And like I said, since the industry is now working together under SROs, we can navigate this better and probably have better environment as we move forward. That is what comes to my mind? Udaya, if you want to add?

Udaya Kumar Hebbar: I think it's a joint effort by the industry, by the regulator, and by the SROs. I think all of them are working closely to see how to navigate going forward. The guardrails are one of the outcomes. When I say guardrail, it is the guardrail made by the industry itself. When you say MFIN, it's industry made guardrail. The members are part of making the guardrail for themselves. So I think that kind of consciousness is already there. And again, underwriting systems, many of them are probably improving the underwriting, even our case also. For example, we expanded our audit team to audit the branch at a frequency of even less than 45 days today, which is very hard. We have taken that kind of journey. And to make it more strong, we implemented several engines to accommodate stronger control, stringent inflows, customer checks. So many measures are adopted. I think, similarly, many MFIs definitely would have made that. I think it's a joint effort of all our stakeholders together and what is happening. These learnings are definitely helpful for the future.

Shreepal Doshi: Got it, sir. Thank you so much for answering my questions. I will come in the queue if I have more questions.

Udaya Kumar Hebbar: Thank you.

Moderator: Thank you. The next question comes from the line of Viral Shah from IIFL Capital. Please go ahead.

Viral Shah: Hi, sir. Thank you. So, two questions. One is I look at slide #13, and I look at the state-wise PAR. So when I look at Tamil Nadu, over there, see that for PAR 0, it has declined by around 80 basis points, quarter-on-quarter. Whereas PAR 90 has actually gone up by 130 basis points. And if I say let's do an analysis of the flow through rates, it seems that the flow through rate seems to be much higher in Tamil Nadu compared to even something like Bihar. Is there anything to read over here or what is it?

Udaya Kumar Hebbar: Difficult to read because Tamil Nadu the higher delinquency happened in January which moved into the bucket. Whereas December actually that moved in whereas others from November actually the trend reversal started early, little one month early. Maybe the month of March is in between. Probably that made a difference. Otherwise by and large the trend is common across the geography. Tamil Nadu we faced little bad situation because of rains and everything in December. That all moved into PAR 90 by the end of March 31st. We are not seeing any very different issue in Tamil Nadu.

Viral Shah: Okay, sir. Sir, my second question is, when we talk of, near to normalized PAR accretion, so even ex of Karnataka, if you look at, say, in the month of April, it is still more than double of what it was last year. So is it something that we should be calling or talking of say close to normalization, because this is going to be a longer journey, right?

Udaya Kumar Hebbar: Yes, I think we said that near normal is correct. But April was a little aberration in the first half of the month due to lot of festivals, lot of employee holidays during that period, leading to a little aberration. But it's already coming back to normalcy in May itself already. It is a temporary brief of for 15 years of April. Otherwise, we are already back into normalcy.

Viral Shah: Sir, but if I recall, like last year, in the first quarter when the trends had started deteriorating, the explanation was, even from an industry perspective, that there were heat waves and elections. So I would think that even in the base, it would have already been there?

Udaya Kumar Hebbar: No, let's compare March-to-March. April, we know that there is a blip. It is temporary and we are aware why it happened because of the fact that will have couple of, when there is a lot of holidays also there, transfer is also there. So we are aware about it. But by May 14th they are already back. If you look at May month, May 1 to May 14th, we are at 0.12% new accretion actually. So it's already come back to normalcy. So it's a question of a small blip in April 1st half. Otherwise, we are definitely near normal compared to March last year or April last year.

Viral Shah: Got it, sir. And sir, last question. More I would say a bit philosophical. In this cycle, what is different versus in the previous cycle, how we look at and analyze this? So historically, we always used to look at, PAR, right? When is the PAR peaking out? How it is trending? Now, in this entire cycle, the conversations have moved to, say, incremental pace of PAR accretion, right? At the end of the day, the PAR is still keeping on increase. Are we, I would say, trying to say crystal gaze too much in future, say if trends persist like this 12 months down the line, this is what it could look like. Because when we look at ex bucket collection efficiency, by definition, after 9 months of pain, it has to improve, right? Because we are eliminating the delinquent customers from the base?

Udaya Kumar Hebbar: Correct. So ex-bucket collections need to come below, I mean, need to be above 99.5%. To reach near normalcy, that is what we are telling largely in many states other than Karnataka where more than 99.5% to 99.7% ex-bucket collections. So why one is using ex-bucket as a benchmark today? Because the current PAR in the system is much higher. If you put the PAR as a control, it is difficult to assess the actual efficiency because every part of even 0.1% actually increase the total PAR. Therefore, the ex-bucket becomes relevant today. Maybe once this entire journey of provision and write off is completed, we will be back to collection efficiency as a norm. Currently, probably ex bucket collection is more relevant. When this whole journey completes, then things are written off, then you have normal and then you look at better ways the collection efficiency on a PAR 0 kind of thing.

Ganesh Narayanan: And a new PAR accretion rate is important for you to get a view of how things are moving.

Viral Shah: Fair enough, sir. I get it. But if we, in the denominator in an ex bucket collection efficiency scenario, keep on removing the delinquent customers, like after nine months, say, like say 10%, 15%, 20% of the delinquent customers, as they keep getting removed from the denominator, the ex-bucket number will keep improving, right? Because the book has not grown much in this period, right?

Udaya Kumar Hebbar: Yes, this period it is not important to grow the book also, right? We need to be careful.

Viral Shah: My question sir was more I would say I understand from as a manager how you want to look at it and probably this is the right metric, but more so from say analyzing it are we kind of trying to jump the gun?

Udaya Kumar Hebbar: Viral, from analysis point of view you have all data. You have a collection efficiency, you have PAR 0, PAR 60, PAR 90 plus, you have ex bucket. You have all the parameters available to you to analyze, right?

Viral Shah: Right, fair enough, sir. Thank you.

Moderator: Thank you. Our next question comes from the line of Ashlesh Sonje from Kotak Securities. Please go ahead.

Ashlesh Sonje: Good evening. A few questions from my side. Firstly, can you share the ex-bucket collection efficiency number for months of April and May thus far? I believe we have disclosed a number of about 99.3-99.4% overall for the month of March. So that is one. Secondly, in your understanding, why are you not so worried about incremental drop-off after the implementation of the 3-lender cap in April, because even now about 9% of your loan book is exposed to that set of borrowers. That's the second one. And lastly, more qualitative, when we speak to industry participants, we understand that there is a general challenge of uniquely identifying borrowers, because different lenders tend to use different KYC documents. Additionally, it also seems like the credit bureau is not allowed to store or share the other number of the borrower. So where are you and where is the industry in general today on solving that issue? Thanks. Those are all the questions.

Nilesh Dalvi: On the overall book it is around say 99.2% because of Karnataka. If exclude Karnataka, it's around say 99.5%, in the month of April. May it will be better because as you see, Ashlesh, as on 11th of May, we have added around say 12 bps of PAR 0. So if we continue the same trend maybe for the full month we add around say 25 to 30 bps of PAR 0 which means that the collection ex bucket will be around 99.7% that is excluding Karnataka, so we need to see.

Udaya Kumar Hebbar: That is one. Second is about the dropout and the incremental growth, right? So we know that there will be about 6%-7% of customers who have to drop and the portfolio also, to some extent, we have to drop almost 7% of income, but still we have an opportunity, if you look at the slide, we talked about guidance. We mentioned what are the challenges and what are the opportunities that we have. We feel we will be able to acquire customers if you look at in the Q4, we acquired 2.61 lakh new customers with the 43% new to credit.

Ashlesh Sonje: Sorry to interrupt you. Hello. Sir, this question was more around worrying about delinquencies because you won't be able to lend to some of these borrowers.

Nilesh Dalvi: Ashlesh, as you see the slide on delinquencies where in ex-Karnataka, we see that even in the case of borrowers with more than 4 lenders the PAR has largely been stable. So this is something we have been saying earlier also that the delinquencies have largely played out and not the entire pool having multiple lender is bad. There we still have 80% customers who continue to make payments and over a period of time normatively the customers who keep making payments obviously at some point in time their one or the other loan gets closed, their overall outstanding falls below 2 lakh and they again become eligible. This is not going to be a permanent loss for us. It is only a temporary adjustment wherein the borrowers will have to wait for some time, get their obligations under control and they again become eligible. Obviously, during this time, customers who might get into delinquency, they are getting into the delinquent bucket. So that is something we have seen over the last six months. Some of it will happen.

Udaya Kumar Hebbar: Also, we need to recognize that these are all short-term loans. That is why it's actually coming down faster. Maybe this month they are not eligible, 3 months down they may be eligible because they would have paid as their fee installments to all of them, whom they borrowed. I think that's why we said 81% of those customers are all paying good standards even today. I think most of them will remain and by the time they come back for renewal, probably they'll be back with eligibility. Therefore, we believe that this is not a big risk for us.

Ashlesh Sonje: Understood sir. The question comes because in the last few months we have seen many lenders starting to disburse as well at a fairly robust momentum. The fear is that, how are we sure that the repayments which are coming through are purely because of recovery and incomes and not purely because of the access to disbursements?

Udaya Kumar Hebbar: See, so long they're paying to all the lenders and then when they come back for the renewal, if they're not what you call default with the other lenders and they're within the three lenders norm or within two lakh, we don't see a risk in renewing. That is point one. Second, maybe some other lenders they borrow, they borrow from somebody else and pay to us. But they are paying to be only one instrument, not the entire loan and they would have borrowed with no delinquency with anybody and they are eligible to get the money. I don't think this issue there also.

Ashlesh Sonje: Understood sir. And sir, the last one on borrower identification?

Udaya Kumar Hebbar: KYC, we have to go by only voter ID at this point of time because of the regulatory requirement, but we actually implemented the entire portal checking long back. So every ID is deduped, followed by checking on the portal.

Moderator: Ladies and gentlemen, the line for the management seems to have been disconnected. Please stay connected while we reconnect the management. Ladies and gentlemen, the line for the management has been reconnected. Please go ahead, sir.

Udaya Kumar Hebbar: Sorry, we had a technical problem. So I was talking about the bureau data, right? Voter IDs being validated through a voter ID portal before acquiring any customer or before giving any loan. And largely, this is stable across the industry today. And one of the problems which we had, most of the banks used to give data once in a month. By regulation, it becomes fortnight. That also is a higher frequency, which helps the identification faster. If any multiple lending can be checked faster. And then even the entire regulator, particularly MFIN, is tracking all the MFIN members about the KYC side as well as the multiple lender side as well as the leveraging side also and to give back the data if anyone breaches. Largely, it's a good governance there. So therefore, there may not be too much of risk coming. Of course, if Aadhaar would have been there, it was very good for everybody. Unfortunately, that is not the case today. So, they have to manage with voter ID only.

Ashlesh Sonje: Okay, sir. Thank you.

Moderator: Thank you. The next question comes from the line of Hardik Shah from Goldman Sachs. Please go ahead.

Hardik Shah: Thank you for the opportunity, sir. I have two questions. One is on the growth. I appreciate you calling out group lending growth at 8-12% because of potential write-offs. But if you were to think about FY27 in a normalized environment, how should we think about growth? If you break that down into borrower growth and ticket size growth? Why I ask that particularly is because penetration levels in some of the large states have already reached at very high levels. Bihar, more than 90%; Karnataka, Tamil Nadu at 65%. So what are the states that will drive that borrower growth, if you could allude on that?

Udaya Kumar Hebbar: I think, our microfinance growth would remain range-bound between 8-14% even for FY27-28 also because we already said that our microfinance growth will remain above lower, whereas non-microfinance growth will be a little higher to compensate that. So therefore, we believe that between 10-15% or 12%-14% is feasible in microfinance through new customers as well as retained customer renewals, which is still possible. We don't see a risk there. And geography-wise, I think there are still many large geographies unmet. If you look at the entire India, even by 80% of the MFI covered districts, high districts, still you have more than 30%-40% of unmet demand there. So we can continue to address that in the deep rural. If you look at, our business is deep rural and it is still there is a higher opportunity there. As you see right now, our new to credit is almost 43%, which is basically a new customer site. So that means there is a huge opportunity.

Hardik Shah: Got it. Sir, in terms of borrower and ticket size, fair to assume 8-14%, if you are calling 12% as the group landing or is this more going to be only borrower and ticket size kind of remains flat because of what the level.

Udaya Kumar Hebbar: Because we always work on retaining customers and growing, evolving with them. That means the retained customer will get a higher ticket size. Therefore, there will be two sets of growth. One is growth from the new customer, where the ticket size will be lower for the current year, but by FY27, they will get some more. Correct? So it's always a continuous journey. The growth will come, some percentage comes from the ticket size, on a renewal, higher renewal, and then some set of growths come from what you call new customers. So 7%-8% may be our customer growth, with that. About 10% to 15% will be the portfolio growth kind of thing on a range bound I am talking. I am talking about microfinance only.

Hardik Shah: Yes, of course. My second question is on the proposed bill by the central government on banning of unauthorized lending activities (BULA) act pan India which kind of looks like the reading looks like similar to Karnataka ordinance. So any early view on that if at all that was to be implemented how could you navigate that?

Udaya Kumar Hebbar: We don't have much idea, but actually when the Karnataka Government was doing this regulation, actually did go through the draft guidelines of BULA. I think largely aligned with that.

Hardik Shah: Okay. Thank you, sir.

Moderator: Thank you. Our next question comes from the line of Bhavesh Kanani from Swan Investments. Please go ahead.

Bhavesh Kanani: Thank you for taking my question. Just a quick one, some color on the individual loan composition we are looking at over the next couple of years. And the yield differential between the group loan and individual?

Ganesh Narayanan: So broadly, we have guided that incrementally, the growth in microfinance will slow down and the retail will catch up. And we have guided earlier that roughly by FY28, we will have anywhere between 12% to 15% of non-microfinance loans. And yields, as we said earlier also, most of the retail finance loans are either equal or slightly lower than microfinance loans, except for home loans, which is today averaging at around 16.9%. So we will take some partnership route for home loans once we have some traction and book size, and experience, thereby neutralizing any impact on each.

Bhavesh Kanani: Okay, but would you like to call out within this 12% to 15% individual loans? What kind of mix will be contributed by home loans?

Nilesh Dalvi: Bhavesh, overall the retail finance what we looking at maybe might reach to 15% to 16%. So as of now, this, the secured versus unsecured, is around, unsecured is 75%, secured is 25%. So maybe over the next couple of years, we aim to take it to around say 50%-50%. So in secured book, largely it will be the secured business loans, affordable housing loans and two-wheeler loans, and unsecured will be the individual business. So maybe it might settle somewhere around 50-50% over the next 2 to 3 years.

Bhavesh Kanani: Okay, so in essence, NIM implications, you don't see any major NIM implications because of the change?

Udaya Kumar Hebbar: No, we don't see any major implication on NIM. Perhaps, we will have an advantage of better cost implication because there is no or a minimal acquisition cost because as we are going to do the majority of the business with the existing customers. The advantage of that will come.

Nilesh Dalvi: Bhavesh, we will try to be neutral at the PBT level. Since on retail finance, individual business loans, it is all given to our existing customers. And even in the secured book, which is the secured business loans and affordable housing loans, we still have around 60% existing and 40% new. Across a larger portion of the retail finance, we will not have any sourcing cost. To that extent, our cost structures will be under control. And we will try to optimize our pricing to be competitive in the industry, at the same time, ensure consistency on the PBT front. So that's what we will try to maintain the ROAs across all the products.

Bhavesh Kanani: Thanks for the response.

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

Udaya Kumar Hebbar: Thank you everybody for patiently listening and thank you for questions also and for your continuous support. Thank you very much.

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