

January 05, 2021

CreditAccess Grameen Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture	1,089.45	1,089.45	[ICRA]A+(Stable); reaffirmed
Commercial Paper	500.00	500.00	[ICRA]A1+; reaffirmed
Bank Facilities	3,500.00	3,500.00	[ICRA]A+(Stable); reaffirmed
Total	5,089.45	5,089.45	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation considers CreditAccess Grameen Limited's (CAGL) established presence in the microfinance industry and its comfortable overall financial indicators characterised by good earnings and a comfortable capital profile (standalone managed gearing stood at 3.0 times as of H1 FY2021). CAGL completed the acquisition of a 76.08% stake in Madura Micro Finance Limited (MMFL; rated [ICRA]A-; under rating Watch with Positive Implications) in FY2020 with MMFL expected to merge with CAGL by Q1 FY2022. The consolidated portfolio and managed gearing stood at Rs. 11,183 crore and 3.8 times, respectively, as of September 2020. The company raised fresh equity capital of Rs. 800 crore in October 2020, which would support its capital profile over the near-to-medium term as the portfolio is expected to grow at about 25-30% per annum from FY2022.

ICRA notes that CAGL is vulnerable to risks inherent with the microfinance business and its regionally concentrated portfolio with Karnataka accounting for about 44.1% of its standalone portfolio (37.2% on a consolidated basis) as on September 30, 2020. CAGL has been expanding its geographical presence and currently has operations in 14 states/Union Territories (UTs). It is also diversifying its product portfolio by scaling up its individual loan (non-microfinance) book, which accounted for 4.7% of its advances as on September 30, 2020. CAGL's collections were impacted by the Covid-19-related disruptions. While the collection efficiency¹ improved steadily since Q1 FY2021 to 92% in November 2020 from about 74% in June 2020, the softer bucket delinquencies increased sharply. ICRA notes that the company's collection efficiency remains below the pre-Covid levels; its ability to steadily improve the collection efficiency and control its delinquencies would be crucial going forward.

Key rating drivers and their description

Credit strengths

One of the large NBFC-MFIs with an established track record – CAGL is an established and large player in the microfinance industry with a track record of over 20 years. The company has a strong board with experienced personnel from the areas of banking and microcredit. Its senior management team comprises professionals with good functional expertise. With a consolidated portfolio of Rs. 11,183 crore as on September 30, 2020, CAGL is one

¹ Monthly collections excluding prepayments/monthly demand

of the largest players in the domestic microfinance market offering a range of products such as income generation, family welfare, emergency loans, home improvement and retail finance loans. Built on the Grameen model of microfinance, the company has a predominantly rural presence with rural borrowers accounting for almost 82% of its total borrower base. Further, its weekly collection model enables closer engagement levels with its borrower base.

Good profitability; some pressure expected in the near term on account of higher provisions – CAGL, on a standalone basis, has maintained good operating efficiency over the years as reflected by the cost-to-income ratio of about 35-40%. This supported its operating profitability, which stood at 6.6% in H1 FY2021 (as a percentage of the average managed assets; AMA) and 7.0% in FY2020. Despite a predominantly weekly collection model, CAGL's cost-to-income ratio has been supported by operating efficiency arising from good client retention (~85%), higher share of rural customers (about 82% on a standalone basis and 86% on a consolidated basis as of March 2020) and higher per borrower exposure. ICRA notes that the company's portfolio largely comprises microfinance loans (95.3%) with individual loans accounting for the balance (4.7%). CAGL expects the share of individual loans to increase to about 10-15% of its portfolio over the next 3-5 years to meet the growing borrower requirements. The standalone net profitability (PAT/AMA) moderated to 3.4% in FY2020 from 4.9% in FY2019 because of the increase in provisions on account of the pandemic. In H1 FY2021, it further moderated to 2.4% as CAGL augmented its expected credit loss (ECL) provisions to about ²5.2% of the total standalone assets under management (AUM); (³5.0% on a consolidated basis) vis-à-vis 2.7% (2.6% on a consolidated basis) in March 2020. At the consolidated level, PAT/AMA stood at 2.3% in H1 FY2021. Over the medium term, CAGL's ability to maintain good operating efficiency as it increases its presence in new geographies and controls its credit costs would be critical for incremental profitability.

Comfortable capitalisation levels – CAGL's standalone managed gearing stood at 3.0 times as on September 30, 2020. It raised fresh equity of Rs. 800 crore in October 2020, which would support its near-to-medium-term requirements. ICRA notes that MMFL's capital and the liquidity profile are adequate, and it is less likely to rely on CAGL till the merger. At the consolidated level, the managed gearing, adjusted for goodwill, stood at 3.8 times as of September 2020 (4.0 times as of March 2020). ICRA expects CAGL to maintain a comfortable capital structure and keep its managed gearing at about 4.0-4.5 times over the medium term.

Credit challenges

Regionally concentrated portfolio profile – As on September 30, 2020, CAGL had a presence in 13 states and 1UT (standalone) with Karnataka accounting for 44.1% of its portfolio on a standalone basis (37.2% on a consolidated basis). ICRA notes that the same has been reducing over the years compared to 70% as on March 31, 2015. The company's exposure in the top 10 districts (all in Karnataka and Maharashtra) accounted for around 27% of its portfolio as on September 30, 2020. ICRA takes note of CAGL's significant rural presence, its predominantly weekly collection model aiding better client engagement levels, and prudent customer on-boarding and monitoring, which provide comfort to an extent. During the last three years, the company has also forayed into contiguous districts in Odisha, Goa, Kerala, Puducherry, Rajasthan, Jharkhand, Uttar Pradesh and Gujarat, which is expected to help reduce its regional-and-state-level concentration over the medium term. Further, the merger with MMFL will aid in reducing portfolio concentration in Karnataka to a certain extent.

² Total provisions (as per CAGL's standalone Balance Sheet)/Gross Loan portfolio (standalone)

³ Total provisions (as per consolidated Balance Sheet)/consolidated Gross Loan portfolio

Ability to manage political, communal and other risks in the microfinance sector – The microfinance industry is prone to socio-political and other risks, which could negatively impact the financial position. CAGL’s ability to manage the risks arising out of the marginal profile of its borrowers, the unsecured nature of lending, and the political, communal and other risks in its portfolio and across new geographies that it expands into would be crucial. Additionally, in line with the industry, the company’s ability to on-board borrowers with a good credit history along with the recruitment and retention of employees, and the risks pertaining to borrower overleveraging, given their access to informal funding sources, would be key monitorables.

Impact of the pandemic on asset quality is a monitorable; however, collections have improved steadily – The microfinance industry was faced with many challenges following the spread of the pandemic. These include the continuity of business operations on the field, slowdown of economic activities and the possible adverse impact on the asset quality. CAGL’s 0+ days past due (dpd) increased considerably as on September 30, 2020 compared to March 31, 2020. Non-repaying borrowers stood at 8% as on September 30, 2020 with 15% of the borrowers making partial repayments. ICRA notes the steady improvement in the collection efficiency, which stood at 92% as of November 2020 compared to 74% in June 2020. The collection efficiency, however, remains below the pre-Covid levels. CAGL’s 90+ dpd stood at 1.4% in September 2020 vis-à-vis 1.2% in March 2020 (0.5% in March 2019). MMFL’s collection efficiency had improved to ~83% in September and October 2020 from ~55% in June 2020.

CAGL has a robust loan origination, monitoring and collection system, which has supported the asset quality in the past. The internal audits of the branches are conducted on an average bi-monthly basis and the scope and coverage are adequate in relation with the current operations of the company. In addition to internal audits, the company has a risk management vertical for the proactive assessment of various business and operating risks. CAGL’s quality control/risk management team undertakes regular reviews of process adherences and documentation, which aids in better client and branch monitoring. CAGL’s ability to sustain and improve the collection efficiency and control delinquencies while maintaining the profitability will be a key rating monitorable.

Liquidity position: Adequate

CAGL’s cash and liquid investments stood at Rs. 1,182 crore as on November 30, 2020 and it had undrawn credit lines of ~Rs. 1,114 crore. The company is also expecting fresh sanctions from financial institutions and banks, which are in various stages of approval. Debt repayments (including interest) and operational expenses during December 2020-March 2021 stand at Rs. 2,279 crore. CAGL’s liquidity profile is adequate considering the improvement in collections and the available liquidity. As on November 30, 2020, CAGL had borrowing relationships with 8 public sector banks, 12 Indian private banks, 10 foreign banks, 4 domestic financial institutions and 7 foreign institutional investors. The company had outstanding borrowings of Rs. 7,663.8 crore as on November 30, 2020, comprising bank term loans (51.2%), loans availed from non-banking financial companies (NBFCs) and other private institutions (26.9%), NCDs (16.4%) and borrowings through the direct assignment route (5.5%).

Rating sensitivities

Positive triggers – ICRA could upgrade CAGL’s rating or revise the outlook to Positive if the company demonstrates a steady improvement in geographical diversification with a reduction in the state-level concentration while having a comfortable capital structure (managed gearing consistently below 3.5 times) and reporting a healthy liquidity and earnings profile.

Negative triggers – Pressure on CAGL’s ratings could arise if there is a material deterioration in the asset quality with the 90+dpd increasing beyond 2.5% or if the leverage exceeds 5 times for a prolonged period or if there is a sizeable weakening in the liquidity and earnings profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA’s Credit Rating Methodology for Non-Banking Finance Companies
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of CAGL; however, in line with ICRA’s limited consolidation approach, the capital requirement of the key subsidiary, MMFL, has been considered

About the company

CreditAccess Grameen Limited (CAGL) commenced microfinance operations under the leadership of Mrs. Vinatha M Reddy in 1999 as a department/division under T. Muniswamappa Trust (TMT), a registered public charitable trust/NGO. This microfinance programme was transferred and transformed into a non-banking financial company (NBFC) in 2007-08. The promoter group, CreditAccess Asia, acquired a majority stake in the company in FY2014 and currently owns about 74.1%.

CAGL is engaged in microlending activities mainly in Karnataka, Maharashtra, Tamil Nadu, Madhya Pradesh, Chhattisgarh, etc. As on September 30, 2020, the company had a portfolio of Rs. 9,207.3 crore serving borrowers across 230 districts. The portfolio in Karnataka stood at around 44.1% as on September 30, 2020 compared to 58.1% as on March 31, 2018 (70% as on March 31, 2015).

Key financial indicators (standalone)

	FY2019 (Ind-AS)	FY2020 (Ind-AS)	H1 FY2021 (unaudited)
Total Interest Income excluding Securitisation Income	1,218	1,617	954
Profit after Tax	322	328	142
Net Worth	2,365	2,669	2,809
Total Managed Portfolio	7,159	9,896	9,330
Total Managed Assets	7,884	11,385	11,939
Return on Managed Assets	4.9%	3.4%	2.4%
Return on Net Worth	16.9%	13.0%	10.4%
Gearing	2.1	3.0	3.0
Gross NPA (%)	0.6%	1.6%	1.8/1.7*
Net NPA (%) ⁴	0.00%	0.00%	0.00%
Net NPA / Net Worth	0.00%	0.00%	0.00%
CRAR (%)	35.3%	23.6%	26.4%

Amount in Rs. crore Considering no change in NPA recognition after August 31, 2020, in accordance with the order of the Hon’ble Supreme Court*

⁴ As per Ind-AS financials and CAGL’s investor presentation dated November 06, 2020

Status of non-cooperation with previous CRA: Not applicable

Any other information

As per the Auditor's Report for FY2020 and the disclosure made in the Annual Report, ICRA notes that debt repayments to some lenders were not made on the due dates in March 2020 because of the Covid-19-related lockdown and in view of the COVID-19 – Regulatory Package announced by the Reserve Bank of India (RBI). ICRA notes that these were because of the lockdown, which created temporary operational challenges in servicing the debt, and the procedural delays in getting approval for a moratorium on the loans from the lending institutions. The company made the payments subsequently or got the moratorium approved with retrospective effect from the lenders.

Rating history for past three years

	Instrument	Type	Amount Rated	Amount Outstanding	Current Rating (FY2021)				Rating History for the Past 3 Years						
					FY2021				FY2020		FY2019				FY2018
					Jan-05-2021	Sept-04-2020	Jul-24-2020	May-18-2020	Dec-06-2019	Sep-30-2019	Oct-05-2018	Sep-07-2018	Aug-07-2018	Apr-27-2018	Sep-18-2017
1.	NCD	LT	1,089.45	1,089.45*	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+(Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Positive)	[ICRA]A (Stable)
2.	Bank facilities	LT	3,500.00	3,500.00**	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+(Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Positive)	[ICRA]A (Stable)
3.	CP	ST	500.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1

Amount in Rs. crore

*Rs. 69 crore unallocated; **Rs. 790.97 crore unallocated

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term Loans	May-17 to Nov-20	-	Mar-21 to Jun-23	2,709.03	[ICRA]A+(Stable)
-	Term Loans - Unallocated	NA	-	NA	790.97	[ICRA]A+(Stable)
INE741K07231	NCD	31-Mar-2015	11.21%	31-Mar-2021	30.00	[ICRA]A+(Stable)
INE741K07215	NCD	31-Jul-2017	11.60%	31-Jul-2023	100.00	[ICRA]A+(Stable)
INE741K07199	NCD	31-May-2017	10.34%	03-Jun-2022	90.45	[ICRA]A+(Stable)
INE741K07223	NCD	28-Sep-2017	11.47%- 11.68%	28-Sep-2023	39.00	[ICRA]A+(Stable)
INE741K07280	NCD	26-Jun-2020	10.00%	26-Jun-2023	50.00	[ICRA]A+(Stable)
INE741K07298	NCD	29-Jun-2020	10.50%	21-Apr-2023	145.00	[ICRA]A+(Stable)
INE741K07306	NCD	26-Jun-2020	10.05%	3-Jul-2023	30.00	[ICRA]A+(Stable)
INE741K07314	NCD	21-Jul-2020	9.95%	21-Apr-2023	100.00	[ICRA]A+(Stable)
INE741K07322	NCD	28-Jul-2020	9.81%	30-Jul-2023	25.00	[ICRA]A+(Stable)
INE741K07355	NCD	18-Sep-2020	9.15%	22-Mar-22	50.00	[ICRA]A+(Stable)
INE741K07355	NCD	18-Sep-2020	9.15%	22-Mar-22	50.00	[ICRA]A+(Stable)
INE741K07363	NCD	20-Oct-2020	9.15%	20-Apr-22	100.00	[ICRA]A+(Stable)
INE741K07348	NCD	14-Aug-2020	9.25%	14-Feb-22	36.00	[ICRA]A+(Stable)
INE741K07348	NCD	14-Aug-2020	9.25%	14-Feb-22	50.00	[ICRA]A+(Stable)
INE741K07371	NCD	11-Nov-2020	9.15%	11-May-22	25.00	[ICRA]A+(Stable)
INE741K07389	NCD	10-Dec-2020	9.15%	10-Jun-22	100.00	[ICRA]A+(Stable)
Unutilised	-	-	-	-	69.0	[ICRA]A+(Stable)
Commercial Paper	CP	-	-	-	500.0	[ICRA]A1+

Source: CAGL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Madura Micro Finance Limited	76.08%	Limited consolidation

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