March 30, 2021 Revised

CreditAccess Grameen Limited: Rating reaffirmed, rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture*	1,089.45	1065.28	[ICRA]A+(Stable); reaffirmed
Non-convertible Debenture*	-	89.00	[ICRA]A+(Stable); assigned
Commercial Paper*	500.00	500.00	[ICRA]A1+; reaffirmed
Bank Facilities*	3,500.00	3,500.00	[ICRA]A+(Stable); outstanding
Market Linked Debentures	-	50.00	Provisional PP-MLD [ICRA]AA+(CE)(Stable); outstanding
Total	**5,089.45**	**5,204.28**	

**Instrument details are provided in Annexure-1; For credit enhanced ratings of the entity, refer the rationales given under Structured Finance section here*
The letters, PP-MLD, prefixed to a rating symbol stand for principal protected market linked debentures. According to the terms of the rated instrument, the amount invested, that is the principal, is protected against erosion while the returns on the investment could vary, being linked to movements in one or more variables, such as equity indices, commodity prices, and/or foreign exchange rates. The rating assigned expresses ICRA's current opinion on the credit risk associated with the issuer concerned. The rating does not address the risks associated with variability in returns resulting from adverse movements in the variable(s) concerned

Rationale

The ratings consider CreditAccess Grameen Limited's (CAGL) established presence in the microfinance industry and its comfortable capital profile (standalone managed gearing stood at 2.3 times as of 9M FY2021). CAGL had completed the acquisition of 76.08% stake in Madura Micro Finance Limited (MMFL; rated [ICRA]A-; under rating Watch with Positive Implications) in FY2020; it marginally increased its stake to 76.25% stake in Q3 FY2021. MMFL is expected to merge with CAGL by FY2022. The consolidated portfolio and managed gearing stood at Rs. 12,321 crore and 3.0 times (provisional), respectively, as of December 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 45% of its standalone portfolio (38.3% on a consolidated basis) as on December 31, 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 3.9% of its advances as on December 31, 2020. CAGL's collections were impacted by the Covid-19-related disruptions. While the collection efficiency[1] improved steadily to 91% in December 2020 from about 74% in June 2020, PAR 90 on a standalone basis has increased sharply to 5.2% as of December 2020 from 1.4% as of September 2020. Collection efficiency, including arrear collections stood at 96% as of December 2020. For Madura Microfinance Limited, PAR 90 stood at 2.9% as of December 2020 as compared to 1.6% as of March 2020. ICRA notes that the company's collection efficiency remains below the pre-Covid levels; its ability to steadily improve the collections and control its delinquencies would be a key monitorable 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

[1] *Monthly collections excluding arrears/monthly demand*

banking and microcredit. Its senior management team comprises professionals with good functional expertise. With a consolidated portfolio of Rs. 12,321 crore as on December 31, 2020, CAGL is one 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.

Comfortable capitalisation levels – CAGL's standalone managed gearing stood at 2.3 times as on December 31, 2020 vis a vis 3.0 times in September 2020. The improvement was on the back of the Rs. 800 crore equity raised in October 2020; this 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[2] stood at 3.0 times as of December 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.

Good operating profitability; higher provisions impacted net profitability– 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 5.9% in 9M 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 (96.1%) with individual loans accounting for the balance (3.9%), as of December 2020. 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 9M FY2021, it further moderated to 0.8% as CAGL augmented its expected credit loss (ECL) provisions to about [3]5.8% of the total standalone [4]assets under management (5.6% 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 0.7% in 9M FY2021. The company reported a loss of Rs. 71.6 crore on a standalone basis and Rs. 79.1 crore on a consolidated basis in Q3 FY2021.

Over the medium term, CAGL's ability to maintain good operating efficiency as it increases its presence in new geographies and controlling its credit costs would be critical for incremental profitability.

Credit challenges

Regionally concentrated portfolio profile – As on December 31, 2020, CAGL had a presence in 13 states and 1 UT (standalone) with Karnataka accounting for 45.1% of its portfolio on a standalone basis (38.3% 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 28% of its portfolio as on December 31, 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.

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

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[2] adjusted for goodwill

[3] total ECL provisions stood at 5.9% of the standalone exposure at default as of December 2020(5.7% on a consolidated basis)

[4] Gross loan portfolio including assigned book

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– 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 to 11.8% as on December 31, 2020 compared to 1.9% in March 31, 2020. Non-repaying borrowers stood at 5% as on December 31, 2020 with 7% of the borrowers making partial repayments. ICRA notes the steady improvement in the collection efficiency, which stood at 91% as of December 2020 and remained range-bound at these levels in Jan-Feb 2021, compared to 74% in June 2020. MMFL's collection efficiency had improved to ~86% in December 2020 from ~55% in June 2020. Collection efficiency, however, continues to remain below the pre-Covid levels. CAGL's 90+ dpd stood at 5.2% in December 2020 vis-à-vis 1.2% in March 2020 (0.5% in March 2019). This is higher than the stipulated negative rating trigger, ICRA however takes note of the build-up in provisions and improvement in capital buffer at present, which supports its risk profile. ICRA would monitor the movement in the overdues over the next quarters and its impact on CAGL' financial risk profile.

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. 1,320 crore as on December 31,2020 and it had undrawn credit lines of Rs. 1,499 crore. Expected sanctions in various stages of approval, from financial institutions and banks stood at Rs. 2,808 crore as of December 2020. Debt repayments (excluding interest payments) in the period between January 2021-March 2021 stood at Rs. 1,383 crore. CAGL's liquidity profile remains adequate considering the improvement in collections and the available liquidity. The company's cash and liquid investments position as on February 28, 2021 is sufficient to cover the debt repayments (including interest) for the period between March 2021-May 2021. As of December 2020, CAGL had borrowing relationships with 9 public sector banks, 13 Indian private banks, 12 foreign banks, 5 domestic financial institutions and 6 foreign institutional investors. The company had borrowings outstanding of Rs. 8,116.4 crore as on December 31, 2020, comprising bank term loans (54.1%), loans availed from financial institutions (25.1%), NCDs (16.2%) and funding through the direct assignment route (4.6%).

Rating sensitivities

Positive factors – 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 factors – 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 December 31, 2020, the company had a portfolio of Rs. 1,0203 crore serving borrowers across 231 districts. The portfolio in Karnataka stood at around 45.1% as on December 31, 2020 compared to 58.1% as on March 31, 2018 (70% as on March 31, 2015).

Key financial indicators (audited)

CreditAccess Grameen Limited (Standalone)	FY2019 (Ind-AS)	FY2020 (Ind-AS)	9M FY2021 (unaudited)
Total Interest Income excluding Securitisation Income	1,218	1,617	1,367
Profit after Tax	322	328	70
Net Worth	2,365	2,669	3,524
Total Managed Portfolio	7,159	9,896	10,149
Total Managed Assets	7,884	11,385	12,466
Return on Managed Assets	4.9%	3.4%	0.8%
Return on Net Worth	16.9%	13.0%	3.0%
Gearing	2.1	3.0	2.3
Gross NPA (%)	0.6%	1.6%	6.84%/1.04%*
Net NPA (%)	0.00%	0.00%**	2.0%
Net NPA / Net Worth	0.00%	0.00%	5.8%
CRAR (%)	35.3%	23.6%	31.4%

Amount in Rs. Crore; *Source: Company, ICRA Research; All ratios as per ICRA calculations*

** Considering no change in NPA recognition after August 31, 2020, in accordance with the order of the Hon'ble Supreme Court*

*** 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				Current Rating (FY2021)					Rating History for the Past 3 Years						
		Type	Amount Rated	Amount Outstanding	FY2021					FY2020		FY2019				FY2018
					Mar-30-2021	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	1,154.28	1,154.28*	[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+ (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+ (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+	[ICRA]A1

Source: *Company; Amounts in Rs. Crore*

**Rs. 158 crore unallocated; **Rs. 296.07 crore unallocated; #un-utilised*

For credit enhanced ratings of the entity, refer the rationales given under Structured Finance section here

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 click here

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 Feb-21	-	Mar-21 to Dec-23	3,203.93	[ICRA]A+(Stable)
-	Term Loans - Unallocated	NA	-	NA	296.07	[ICRA]A+(Stable)
INE741K07231	NCD	31-Mar-15	11.21%	31-Mar-21	30.00	[ICRA]A+(Stable)
INE741K07215	NCD	31-Jul-17	11.60%	31-Jul-23	100.00	[ICRA]A+(Stable)
NE741K07199	NCD	31-May-17	10.34%	03-Jun-22	90.45	[ICRA]A+(Stable)
INE741K07223	NCD	28-Sep-17	11.47%-11.68%	28-Sep-23	39.00	[ICRA]A+(Stable)
INE741K07280	NCD	26-Jun-20	10.00%	26-Jun-23	50.00	[ICRA]A+(Stable)
INE741K07298	NCD	29-Jun-20	10.50%	21-Apr-23	120.83	[ICRA]A+(Stable)
INE741K07306	NCD	26-Jun-20	10.05%	3-Jul-23	30.00	[ICRA]A+(Stable)
INE741K07314	NCD	21-Jul-20	9.95%	21-Apr-23	100.00	[ICRA]A+(Stable)
INE741K07322	NCD	28-Jul-20	9.81%	30-Jul-23	25.00	[ICRA]A+(Stable)
INE741K07355	NCD	18-Sep-20	9.15%	22-Mar-22	50.00	[ICRA]A+(Stable)
INE741K07355	NCD	18-Sep-20	9.15%	22-Mar-22	50.00	[ICRA]A+(Stable)
INE741K07363	NCD	20-Oct-20	9.15%	20-Apr-22	100.00	[ICRA]A+(Stable)
INE741K07348	NCD	14-Aug-20	9.25%	14-Feb-22	36.00	[ICRA]A+(Stable)
INE741K07348	NCD	14-Aug-20	9.25%	14-Feb-22	50.00	[ICRA]A+(Stable)
INE741K07371	NCD	11-Nov-20	9.15%	11-May-22	25.00	[ICRA]A+(Stable)
INE741K07389	NCD	10-Dec-20	9.15%	10-Jun-22	100.00	[ICRA]A+(Stable)
Unallocated	NCD	-	-	-	158.00	[ICRA]A+(Stable)
Commercial Paper	CP	-	-	-	500.0*	[ICRA]A1+

Source: *Company; Amounts in Rs. Crore; *un-utilised*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Madura Micro Finance Limited	76.25%	Limited consolidation

Corrigendum

Document dated March 30, 2021 has been corrected with revision as detailed below:

Section where revision has been made:

- Summary of rating action on Page 1.

Revision made:

Prefix for the instrument_Market Linked Debentures has been updated to **Provisional PP-MLD [ICRA]AA+(CE) (Stable); outstanding** and the disclosure has been incorporated.

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