

August 10, 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*	1,124.28	1,079.73	[ICRA]A+(Stable); reaffirmed
Non-convertible Debenture*	30.00	0.00	[ICRA]A+(Stable); reaffirmed and withdrawn
Commercial Paper*	500.00	500.00	[ICRA]A1+; reaffirmed
Bank Facilities*	3,500.00	3,500.00	[ICRA]A+(Stable); reaffirmed
Market Linked Debentures	50.00	50.00	PP-MLD [ICRA]AA+(CE) (Stable); outstanding
Total	5,204.28	5,129.73	

*Instrument details are provided in Annexure-1; For the credit enhanced rating of the entity, refer to the rationales given under the 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, i.e. 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 the 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 gearing¹ stood at 2.7 times as of March 2021). CAGL currently holds a 76.25% stake in Madura Micro Finance Limited (MMFL; rated [ICRA]A-; Watch with Positive Implications). MMFL is expected to merge with CAGL in FY2022, subject to the receipt of regulatory approvals. The consolidated portfolio and managed gearing stood at Rs. 13,586.9 crore and 3.5 times, respectively, as of March 2021. CAGL had raised fresh equity capital of Rs. 800 crore in October 2020, which would support growth over the near-to-medium term.

CAGL's collection efficiency² improved steadily to 94% in March 2021 from about 74% in June 2020 while the 90+ days past due (dpd) stood at 2.9% as of March 2021 compared to 5.2% as of December 2020. For MMFL, the 90+ dpd remained elevated at 4.7% as of March 2021 (2.9% as of December 2020). The second wave of the Covid-19 pandemic in Q1 FY2022 impacted collections, especially in May 2021. While collections are expected to have improved since June 2021, a sustained uptrend in the same would be key from a rating perspective.

ICRA notes that CAGL is vulnerable to the risks inherent in the microfinance business and its regionally concentrated portfolio with Karnataka accounting for 44.8% of its standalone portfolio (38.2% on a consolidated basis) as on March 31, 2021. CAGL has been steadily expanding its geographical presence in the recent past and it currently has operations in 14 states/Union Territories (UTs) on a standalone basis. Good operating profitability supported the earnings in FY2021 even though the provision and credit cost (consolidated) increased to 4.9% from 2.2% in FY2020. CAGL had augmented its provisions in FY2021 and its overall expected credit loss (ECL) stood at 4.6% (4.5% on a standalone basis) as a proportion of the portfolio as of March 2021. The consolidated net profitability (PAT/AMA)³ declined to 0.9% (1.1% on a standalone basis) from 3.1% in FY2020. The

¹ (total debt+ assigned book)/net worth

² Monthly collections excluding arrears/monthly demand

³ Profit after tax/average managed assets

decline in collections in Q1 FY2022 has accentuated the asset quality risks in the near term. Containing incremental slippages would be crucial from an earnings perspective.

ICRA has withdrawn the rating on the Rs. 30.00-crore non-convertible debenture (NCD) programme as the instrument has been fully redeemed and there is no amount outstanding against the rated instrument. The rating was withdrawn as per ICRA's policy on the withdrawal and suspension of credit ratings.

Key rating drivers and their description

Credit strengths

One of the largest 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. 13,586.9 crore as on March 31, 2021, 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 at the standalone level (proportion of rural borrowers stood at 85% at the consolidated level). Further, its predominantly weekly collection model enables closer engagement levels with its borrower base.

Comfortable capitalisation levels – CAGL's standalone managed gearing stood at 2.7 times as on March 31, 2021 vis-à-vis 3.1 times as on March 31, 2020. The improvement was on the back of the Rs. 800-crore equity raised in October 2020, which would support its near-to-medium-term requirements. At the consolidated level, the managed gearing⁴ stood at 3.5 times as of March 2021 (4.0 times as of March 2020). ICRA expects CAGL to maintain a comfortable capital structure and keep its consolidated managed gearing at about 4.0-4.5 times over the next two years.

Good operating profitability; near-term pressure on earnings performance expected due to pandemic – 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 6.4% in FY2021 (as a percentage of the AMA) and 7.0% in FY2020. CAGL's cost-to-income ratio has been supported by the operating efficiency arising from good client retention (~87%), higher share of rural customers (about 82% on a standalone basis as of March 2021) and higher per borrower exposure. The standalone net profitability (PAT/AMA), however, moderated to 3.4% in FY2020 from 4.9% in FY2019 because of the increase in provisions, especially in Q4 FY2020, in view of the pandemic. It moderated further to 1.1% in FY2021 as CAGL augmented its ECL provisions to 4.5% of the total portfolio vis-à-vis 2.7% in March 2020. Write-offs, on a standalone basis, stood at 3.5% of the portfolio as on March 31, 2021 (3.4% of the portfolio on a consolidated basis). At the consolidated level, PAT/AMA stood at 0.9% for FY2021 and the ECL provision in relation to the consolidated portfolio was 4.6% as of March 2021.

The impact of the second wave is expected to exert pressure on the company's near-term asset quality and earnings performance. However, its healthy operating performance and provisions are expected to support earnings. A steady improvement in collections, post the dip witnessed in May 2021, would be crucial going forward.

Credit challenges

Regionally concentrated portfolio – As on March 31, 2021, CAGL had a presence in 13 states and 1 UT with Karnataka accounting for 44.8% of its portfolio on a standalone basis (38.2% 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

⁴ Adjusted for goodwill

and Maharashtra) stood at around 27% of its portfolio as on March 31, 2021. ICRA takes note of CAGL's significant rural presence, its predominantly weekly/biweekly collection model aiding better client engagement levels, and prudent customer on-boarding and monitoring, which provide comfort to an extent. In 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 help reduce the portfolio concentration in Karnataka to a certain extent.

Impact of second wave on asset quality is a monitorable – The microfinance industry has faced many challenges following the spread of the pandemic. These include the continuity of business operations on the field, slowdown of economic activities and weakening borrower cash flows, which adversely impacted its asset quality. CAGL's 0+ dpd and 90+ dpd stood at 5.2% and 2.9%, respectively, as on March 31, 2021. ICRA notes that CAGL's 0+dpd and 90+dpd have improved from their peak values in September 2020 and January 2021 respectively (0+ dpd stood at 18.1% as of September 2020). MMFL's 90+ dpd stood at 4.7% in March 2021 vis-à-vis 1.6% in March 2020. Collections were impacted again with the second wave of the pandemic leading to lockdowns in various territories across India. This is expected to lead to a weakening in the asset quality metrics in the near term at least. CAGL has extended a loan holiday to more than 50% of its borrowers between April 2021 and May 2021. ICRA, however, takes note of the build-up in provisions and improvement in the capital buffer at present, which supports the company's risk profile. ICRA would monitor the movement in collections and overdues over the next few months and its impact on CAGL's financial risk profile.

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.

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: Strong

CAGL's cash and liquid investments stood at Rs. 1,938 crore as on March 31, 2021 and it had undrawn credit lines of Rs. 2,384 crore. Debt repayments (excluding interest payment) over April 2021- June 2021 stood at Rs. 1,371 crore. The company is also expecting fresh sanctions from financial institutions and banks, which are in various stages of approval. CAGL's liquidity profile is further supported by the improvement in collections. As on March 31, 2021, CAGL had borrowing relationships with 36 banks and 11 financial institutions. It had outstanding borrowings of Rs. 9,926.4 crore as on March 31, 2021, comprising bank term loans (51.9%), loans availed from non-banking financial companies (NBFCs) and other financial institutions (21.4%), NCDs (14.7%) and borrowings through the DA route (12.1%).

Rating sensitivities

Positive factors – ICRA could upgrade CAGL's ratings 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 leading to RoMA) falling below 3% or if the leverage exceeds 5 times for a prolonged period or if there is a sizeable weakening in the liquidity profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA’s Credit Rating Methodology for Non-Banking Finance Companies Methodology for Consolidation and Rating Approach ICRA Policy on Withdrawal and Suspension of Credit Rating
Parent/Group Support	Not Applicable
Consolidation/Standalone	Consolidated financial profile of CAGL and its subsidiary, MMFL

About the company

CreditAccess Grameen Limited (CAGL) commenced microfinance operations under the leadership of Mrs. Vinatha M Reddy in 1999 as a 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. CreditAccess India acquired a majority stake in the company in FY2014 and currently owns about 74%. CAGL got listed in FY2019 and it acquired 76% in Madura Micro Finance Limited in FY2020.

CAGL is engaged in microlending activities mainly in Karnataka, Maharashtra, Tamil Nadu, Madhya Pradesh, Chhattisgarh, etc. As on March 31, 2021, the company had a portfolio of Rs. 11,341 crore (standalone) serving borrowers across 247 districts. The portfolio in Karnataka stood at 44.8% as on March 31, 2021 compared to 58.1% as on March 31, 2018 (70% as on March 31, 2015).

Key financial indicators (standalone)

CreditAccess Grameen Limited	FY2019 (Ind-AS)	FY2020 (Ind-AS)	FY2021 (Ind-AS)
Total Income excluding Securitisation Income	1,231	1,638	1,907
Profit after Tax	322	328	142
Net Worth	2,365	2,669	3,635
Total Managed Portfolio	7,124	9,893	11,195
Total Managed Assets	7,879	11,382	14,173
Return on Managed Assets	4.9%	3.4%	1.1%
Return on Net Worth	16.9%	13.0%	4.5%
Gearing (times)	2.2	3.1	2.7
Gross NPA (%)	0.6%	1.6%	4.4%
Net NPA (%)	0.00%	0.00%*	1.3%
Net NPA / Net Worth	0.00%	0.00%	3.8%
CRAR (%)	35.3%	23.6%	31.8%

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

** As per Ind-AS financials and CAGL’s investor presentation*

Key financial indicators (consolidated)

CreditAccess Grameen Limited + Madura Micro Finance Limited	FY2019 (Ind-AS)	FY2020 (Ind-AS)	FY2021 (Ind-AS)
Total Income excluding Securitisation Income	-	1,659	2,324
Profit after Tax	-	335	131
Net Worth*	-	2,526	3,479
Total Managed Portfolio	-	11,996	13,462
Total Managed Assets	-	13,487	16,801
Return on Managed Assets	-	3.1%	0.9%
Return on Net Worth (including minority interest and adjusted for goodwill)	-	13.7%	4.4%
Gearing (times)	-	4.0	3.5
CRAR (%)	-	-	26.8%

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

**Adjusted for goodwill*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Sl. No.	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating	Chronology of Rating History for the Past 3 Years										
						FY2022	Date & Rating in FY2021				Date & Rating in FY2020		Date & Rating in FY2019			
						Aug-10-2021	Mar-30-2021	Jan-05-2021	Sep-04-2020	Jul-24-2020	May-18-2020	Dec-06-2019	Sep-30-2019	Oct-05-2018	Sep-07-2018	Aug-07-2018
1	NCD	LT	1,079.73*	1,079.73	[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+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Positive)
2	NCD	LT	30.00	0.00	^[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+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Positive)
3	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+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Positive)
4	CP	ST	500.00#	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; LT – Long term; ST – Short term

*Rs. 13 crore unallocated; **Rs. 977.35 crore unallocated; # Unutilised

^rating reaffirmed and simultaneously withdrawn as instrument has been repaid

For credit enhanced ratings of the entity, refer to the rationales given under the Structured Finance section [here](#)

Complexity level of the rated instrument

Instrument	Complexity Indicator
NCD	Simple
CP	Very Simple
Bank Facilities	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's 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	Mar-17 to Feb-21	7.75% - 10.00%	Mar-21 to Dec-23	2,522.64	[ICRA]A+(Stable)
-	Term Loans - Unallocated	NA	-	NA	977.35	[ICRA]A+(Stable)
[^] INE741K07231	NCD	Mar-31-15	11.21%	Mar-31-21	30.00	[ICRA]A+(Stable); reaffirmed and withdrawn
INE741K07215	NCD	Jul-31-17	11.60%	Jul-31-23	100.00	[ICRA]A+(Stable)
NE741K07199	NCD	May-31-17	10.34%	Jun-03-22	45.90	[ICRA]A+(Stable)
INE741K07223	NCD	Sep-28 -17	11.47%-11.68%	Sep-28-23	39.00	[ICRA]A+(Stable)
INE741K07280	NCD	Jun-26-20	10.00%	Jun-26 -23	50.00	[ICRA]A+(Stable)
INE741K07298	NCD	Jun-29-20	10.50%	Apr-21-23	120.83	[ICRA]A+(Stable)
INE741K07306	NCD	Jun-26-20	10.05%	Jul-3-23	30.00	[ICRA]A+(Stable)
INE741K07314	NCD	Jul-21-20	9.95%	Apr-21-23	100.00	[ICRA]A+(Stable)
INE741K07322	NCD	Jul-28-20	9.81%	Jul-30-23	25.00	[ICRA]A+(Stable)
INE741K07355	NCD	Sep-18-20	9.15%	Mar-22- 22	50.00	[ICRA]A+(Stable)
INE741K07355	NCD	Sep-18-20	9.15%	Mar-22- 22	50.00	[ICRA]A+(Stable)
INE741K07363	NCD	Oct-20-20	9.15%	Apr-20- 22	100.00	[ICRA]A+(Stable)
INE741K07348	NCD	Aug-14-20	9.25%	Feb-14 -22	36.00	[ICRA]A+(Stable)
INE741K07348	NCD	Aug-14-20	9.25%	Feb-14- 22	50.00	[ICRA]A+(Stable)
INE741K07371	NCD	Nov-11-20	9.15%	May-11- 22	25.00	[ICRA]A+(Stable)
INE741K07389	NCD	Dec-10-20	9.15%	Jun-10- 22	100.00	[ICRA]A+(Stable)
INE741K07405	NCD	Mar-31-21	9.85%	Mar-31- 26	145.00	[ICRA]A+(Stable)
Unallocated	NCD	-	-	-	13.00	[ICRA]A+(Stable)
Commercial Paper	CP	-	-	-	500.0*	[ICRA]A1+

Source: Company; * Unutilised

[^]rating reaffirmed and simultaneously withdrawn as instrument has been repaid

Annexure-2: List of entities considered for consolidated analysis

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

Source: CAGL annual report FY2021

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