

December 24, 2021

CreditAccess Grameen Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture*	1,079.73	1,022.24	[ICRA]A+ (Stable); reaffirmed
Non-convertible Debenture*	0.00	300.00	[ICRA]A+ (Stable); assigned
Commercial Paper*	500.00	500.00	[ICRA]A1+; reaffirmed
Bank Facilities*	3,500.00	3,500.00	[ICRA]A+ (Stable); reaffirmed
Principal Protected Market Linked Debentures (PP-MLD)	50.00	50.00	PP-MLD [ICRA]AA+(CE) (Stable); outstanding
Principal Protected Market Linked Debentures (PP-MLD)	100.00	100.00	PP-MLD [ICRA]AA+(CE) (Stable); outstanding
Total	5,229.73	5,472.24	

*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 (CA Grameen) established presence in the microfinance industry and its comfortable capital profile (consolidated managed gearing¹ stood at 3.1 times as of September 2021). CA Grameen 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 CA Grameen in FY2022/FY2023, subject to the receipt of regulatory approvals. The consolidated portfolio stood at Rs. 13,333 crore as of September 2021. CA Grameen had raised fresh equity capital of Rs. 800 crore in October 2020, which would support growth over the near-to-medium term.

CA Grameen's collection efficiency² improved steadily to 94% in November 2021 from about 79% in May 2021. The 90+ days past due (dpd) on a standalone basis increased to 5.6% as of November 2021 from 3.8% as of June 2021. For MMFL, the 90+ dpd remained elevated at 9.3% as of November 2021 (4.8% as of May 2021). MMFL's collection efficiency, excluding arrear collections, stood at 87% as of November 2021 (68% as of May 2021). The second wave of the Covid-19 pandemic in Q1 FY2022 impacted collections, especially in May 2021. While collections have improved since June 2021, a sustained uptrend in the same would be key from a rating perspective.

ICRA notes that CA Grameen is vulnerable to the risks inherent in the microfinance business and its regionally concentrated portfolio with Karnataka accounting for 44.5% of its standalone portfolio (38.1% on a consolidated basis) as on September 30, 2021. CA Grameen has been steadily expanding its geographical presence in the recent past and it currently has operations in

¹ (total debt + assigned book)/net worth adjusted for goodwill

² Monthly collections excluding arrears/monthly demand

14 states/Union Territories (UTs) on a standalone basis. The company's expected credit loss (ECL) provisions on a consolidated basis stood at 5.6% (5.2% on a standalone basis) as a proportion of the gross portfolio as of September 2021. The pressure on the asset quality in FY2021 and Q1 FY2022 and the provision augmentation impacted CA Grameen's return on average managed assets (RoMA) at a consolidated basis. It moderated to 0.9% and 1.0% in FY2021 and H1 FY2022, respectively, from 3.1% in FY2020 and 4.9% in FY2019. In the near term, a sustained improvement in collections and the asset quality would be key from a rating perspective.

Key rating drivers and their description

Credit strengths

One of the large NBFC-MFIs with an established track record – CA Grameen is an established 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. 13,333 crore as on September 30, 2021, CA Grameen 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 (on a consolidated basis) accounting for almost 85% of its total borrower base as of March 2021. Further, its predominantly weekly collection model enables closer engagement levels with its borrower base.

Comfortable capitalisation levels – CA Grameen's standalone managed gearing stood at 2.4 times as on September 30, 2021 (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 gearing³ stood at 3.1 times as of September 2021 (3.5 times as of March 2021). ICRA expects CA Grameen to maintain a comfortable capital structure and keep its consolidated managed gearing at 4.0-4.5 times over the next two years in the base case scenario.

Credit challenges

Regionally concentrated portfolio profile – As on September 30, 2021, CA Grameen had a presence in 13 states and 1 UT with Karnataka accounting for 44.5% of its portfolio on a standalone basis (38.1% 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 (standalone) in the top 10 districts stood at around 27% (23% on a consolidated basis) of its portfolio as on September 30, 2021. ICRA takes note of CA Grameen'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.

Asset quality impacted by second wave of the pandemic, though collections have improved – 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. CA Grameen's 0+ and 90+ dpd stood at 9.1% and 5.6%, respectively, as on November 30, 2021. ICRA notes that CA Grameen's 0+ and 90+ dpd have improved from their peak values in June 2021 and August 2021, respectively (0+ dpd stood at 30.6% as of June 2021 and 90+ dpd stood at 6.3% as of August 2021).

³ Adjusted for goodwill

MMFL's 90+ dpd, however, increased to 9.3% in November 2021 vis-à-vis 4.9% in June 2021 as it is facing a relatively slower recovery in collections in Tamil Nadu. Also, MMFL is in the process of aligning its lending and collection models with CA Grameen, including focus on incremental lending with weekly/fortnightly collections, which is affecting its reported overdues. MMFL reports dpds/overdues on a group basis, i.e. if one or a few members of a group are overdue, the overall group outstanding is classified as overdue, while CA Grameen reports overdues on a member-level basis. MMFL is in the process of moving to member-level reporting of overdues, which is being undertaken as a part of the merger process. CA Grameen's non-repaying portfolio stood at 4.7% as on October 31, 2021 with 5.3% of the portfolio making partial repayments; the same stood at 5.4% and 14.6%, respectively, for MMFL (on a group basis). The restructured portfolio stood at 1.4% of the gross loan portfolio (consolidated) as of September 2021. ICRA takes note of the build-up in provisions and the available capital buffer at present, which supports the company's risk profile.

The microfinance industry is prone to socio-political and other risks, which could negatively impact the financial position. CA Grameen'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.

CA Grameen 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. CA Grameen's quality control/risk management team undertakes regular reviews of process adherences and documentation, which aids in better client and branch monitoring. CA Grameen's ability to sustain and improve the collection efficiency and control delinquencies will be a key rating monitorable.

Subdued profitability – CA Grameen reported a net profit of Rs. 101.6 crore in H1 FY2022, translating into a RoMA of 1.5% (annualised) and a return on average net worth (RoNW) of 5.5%. The consolidated RoMA and RoNW stood at 1.0% and 4.5%, respectively, for H1 FY2022 (annualised). The standalone RoMA and RoNW remained subdued at 1.1% and 4.5%, respectively, in FY2021 vis-à-vis 3.4% and 13.0%, respectively, in FY2020. The profitability in H1 FY2022 and FY2021 was impacted by the increase in write-offs and ECL provisions. The credit costs, as a proportion of average managed assets, stood at 4.1% in H1 FY2022 and 4.9% in FY2021 vis-à-vis 2.2% in FY2020. CA Grameen's ability to contain its credit costs would be crucial for incremental profitability.

Liquidity position: Strong

CA Grameen's cash and liquid investments stood at Rs. 1,179 crore as on November 30, 2021 and it had undrawn credit lines of Rs. 2,175 crore. Debt repayments (excluding interest payment) during December 2021-March 2022 amount to Rs. 2,610 crore. The company is also expecting fresh sanctions from financial institutions and banks, which are in various stages of approval. CA Grameen's liquidity profile is further supported by the improvement in collections.

As on November 30, 2021, CA Grameen had borrowing relationships with 36 banks and 13 financial institutions. It had outstanding borrowings of Rs. 9,389.1 crore as on November 30, 2021, comprising bank term loans (55.3%), loans from non-banking financial companies (NBFCs) and other financial institutions (21.3%), non-convertible debentures (NCDs; 14.6%) and borrowings through the direct assignment (DA) route (7.2%).

Rating sensitivities

Positive factors – ICRA could upgrade CA Grameen'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 CA Grameen’s ratings could arise if there is a material deterioration in the asset quality, leading to the RoMA falling below 3%, or if the leverage exceeds 5 times for a prolonged period or if there is 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
Parent/Group Support	Not Applicable
Consolidation/Standalone	Consolidated financial profile of CA Grameen and its subsidiary, MMFL

About the company

CreditAccess Grameen Limited (CA Grameen) 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/non-governmental organisation (NGO). This microfinance programme was transferred and transformed into an NBFC in 2007-08. CreditAccess India acquired a majority stake in the company in FY2014 and currently owns about 74%. CA Grameen got listed in FY2019 and it acquired 76% in MMFL in FY2020.

CA Grameen is engaged in microlending activities mainly in Karnataka, Maharashtra, Tamil Nadu, Madhya Pradesh, Chhattisgarh, etc. As on September 30, 2021, the company had a portfolio of Rs. 11,184 crore (standalone) serving borrowers across 283 districts. The portfolio in Karnataka stood at 44.5% as on September 30, 2021 compared to 58.1% as on March 31, 2018 (70% as on March 31, 2015).

Key financial indicators (audited)

CreditAccess Grameen Limited	FY2020 (Ind-AS)	FY2021 (Ind-AS)	H1 FY2022 (Ind-AS)
Total Income excluding Securitisation Income	1,638	1,907	991
Profit after Tax	328	142	102
Net Worth	2,669	3,635	3,730
Total Managed Portfolio	9,893	11,195	11,244
Total Managed Assets	11,382	14,173	13,655
Return on Managed Assets	3.4%	1.1%	1.5%
Return on Net Worth	13.0%	4.5%	5.5%
Gearing (times)	3.1	2.7	2.4
*Gross NPA (%)	1.6%	4.4%	7.2%
Net NPA (%)	0.0%**	1.3%	2.8%
Net NPA / Net Worth	0.00%	3.8%	8.0%
CRAR (%)	23.6%	31.8%	30.9%

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

GNPA is considered at 60+ dpd for group loans and 90+ dpd for retail loans; ** As per Ind-AS financials and CA Grameen’s investor presentation

Key financial indicators (consolidated)

CreditAccess Grameen Limited + Madura Micro Finance Limited	FY2020 (Ind-AS)	FY2021 (Ind-AS)	H1 FY2022 (Ind-AS)
Total Income excluding Securitisation Income	1,659	2,324	1,221
Profit after Tax	335	131	79.9
Net Worth*	2,526	3,479	3,553
Total Managed Portfolio	11,996	13,462	13,408
Total Managed Assets	13,487	16,801	15,903
Return on Managed Assets	3.1%	0.9%	1.0%
Return on Net Worth (including minority interest and adjusted for goodwill)	13.7%	4.4%	4.5%
Gearing (times)	4.0	3.5	3.1
CRAR (%)	-	26.8%	26.1%

Source: Company, ICRA Research; All ratios as per ICRA's 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

	Instrument				Current Rating		Chronology of Rating History for the Past 3 Years										
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	FY2022		Date & Rating in FY2021					Date & Rating in FY2020		Date & Rating in FY2019			
					Dec-24-2021	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	Apr-27-2018
1	NCD	LT	1,022.24*	1,022.24	[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+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Positive)
2	NCD	LT	300.00	300.00	[ICRA]A+ (Stable)												
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+ (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+	[ICRA]A1-

Source: Company; LT – Long term; ST – Short term

*Rs. 313 crore unallocated; **Rs. 337.52 crore unallocated; # Unutilised

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

Complexity level of the rated instruments

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: 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	Nov-19 to Nov-21	6.4% - 9.3%	May-22 to Nov-24	3,162.48	[ICRA]A+ (Stable)
-	Term Loans - Unallocated	NA	-	NA	337.52	[ICRA]A+ (Stable)
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	96.67	[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	16.67	[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	75.00	[ICRA]A+ (Stable)
INE741K07405	NCD	Mar-31-21	9.85%	Mar-31-26	145.00	[ICRA]A+ (Stable)
Unallocated	NCD	-	-	-	313.00	[ICRA]A+ (Stable)
Commercial Paper	CP	-	-	-	500.0*	[ICRA]A1+

Source: Company; *un-utilised

Annexure-2: List of entities considered for consolidated analysis

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

Source: CA Grameen annual report FY2021

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