

January 19, 2023 ^(Revised)

CreditAccess Grameen Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Principal Protected Market Linked Debentures (PP-MLD)	100.00	100.00	PP-MLD [ICRA]AA+(CE) (Stable); reaffirmed
Principal Protected Market Linked Debentures (PP-MLD)	50.00	50.00	PP-MLD [ICRA]AA+(CE) (Stable); reaffirmed
Long-term Fund Based – Term Loan	3,500.00	3,500.00	[ICRA]A+ (Positive); outstanding
Non-convertible Debentures	937.07	937.07	[ICRA]A+ (Positive); outstanding
Commercial Paper	500.00	500.00	[ICRA]A1+; outstanding
Total	5,087.07	5,087.07	

Rating Without Explicit Credit Enhancement

[ICRA]A+

*Instrument details are provided in Annexure-I

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The rating action takes into account the structural features available in each transaction such that in the event of non-payment of its expected repayments by CreditAccess Grameen Limited (CAGL), the respective cover pools would be utilised to support the servicing of the rated instruments. The cover pool consists of microfinance loan receivables, which meets the eligibility criteria at the time of issuance. The key structural features of the rated instruments are summarised below.

Instrument	Trust Name	Security Cover	Structural Feature
Rs. 100.00 crore PP-MLD	Archangel Trust 2021	1.30x cover pool ^	Pool to be assigned to the trust on the occurrence of predefined trigger events; post trigger events, all collections from the cover pool will be transferred to the Debenture Trustee of the rated MLDs
Rs. 50.00 crore PP-MLD	CredAvenue Maximoff Trust 2021	1.30x cover pool ^	

^ The cover pool requirement is calculated on the outstanding principal and accrued interest

The rating draws comfort from the established track record of CAGL in the microfinance industry, and its improved asset quality and earnings performance. The consolidated portfolio grew by about 22% in FY2022 vis-à-vis 13% in the previous fiscal. The consolidated 0+days past due (dpd) and 90+dpd improved to 4.9% and 2.7%, respectively, as of March 2022 from 12.8% and 5.8%, respectively, as of September 2021 (6.8% and 3.3%, respectively, as of March 2021). ICRA notes that while the improvement was supported by a steady uptick in the collection efficiency, CAGL also undertook sizeable write-offs (5.1% of the consolidated opening portfolio) in FY2022, partly absorbed by the provisions built up following the onset of the Covid-19 pandemic. The 0+ and 90+ dpd stood at 2.4% and 1.4% as of September 2022. ICRA expects CAGL's financial risk profile to improve steadily going forward, as the impact of the disruptions caused by the pandemic has waned. Nonetheless, post any trigger event, the performance of the cover pool would remain exposed to macro-economic shocks / business disruptions, if any.

Structure details, adequacy of credit enhancement and salient features of rated instruments

Details on the structure, adequacy of the credit enhancement and salient features of each rated instrument are available in ICRA's previous rationales¹.

Rs. 100.00 crore PP-MLD (Archangel Trust 2021): [Click here](#)

Rs. 50.00 crore PP-MLD (CredAvenue Maximoff Trust 2021): [Click here](#)

Key rating drivers and their description

Credit strengths

Presence of cover pool to support servicing of PP-MLDs in event of non-payment by entity: The principal as well as the interest on the MLD are promised to the MLD investors on the legal maturity date. The primary obligation of meeting payments on MLD is on CAGL. However, if CAGL does not meet the expected payments on the MLD, the collections from the cover pool will be available to the Debenture Trustee. Furthermore, the instrument has credit enhancement in the form of over-collateralisation (1.30x) which act as a buffer if the collections in the cover pool decline.

Stringent eligibility criteria for cover pool: Contracts at the time of assignment should be current and contracts that are delinquent by more than 30 days would be excluded from the cover computation. Even the proportion of contracts which are delinquent, but for less than 30 days, should be less than 5% of the outstanding pool at any point of time.

Credit challenges

Interest rate risk as pool yield could be lower in subsequent cover pool at the time of trigger event: The benefit available on account of the difference between the pool yield and the MLD yield may shrink in case the pool, at the time of the occurrence of the trigger event, consists of contracts which have a lower internal rate of return (IRR). However, this is mitigated as almost the entire portfolio of CAGL's comprises loans with IRR of ~19%.

Performance of the pool would remain exposed to macro-economic shocks / business disruptions, if any: Performance of pool would remain exposed to natural calamities that may impact the income generating capability of the borrower, given the marginal borrower profile, further, pool performance would also be exposed to political and communal risks. These include the continuity of business operations and the possible adverse impact on the asset quality if the cash flows and economic activity slow down. CAGL's ability to navigate through the adversity and manage the impact on the business growth and asset quality would remain critical from a rating perspective, going forward.

Liquidity position

For the PP-MLD [ICRA]AA+(CE) (Stable) rating with explicit credit enhancement: Strong

Both the principal and the interest amount on the PP-MLDs is promised to the lender on the legal final maturity date. The cash flows from the cover pool are expected to be comfortable to meet the debt servicing in the event that the entity has been unable to meet the scheduled payments on the PP-MLDs.

For the [ICRA]A+ (Positive) rating without explicit credit enhancement: Strong

¹ Following the release of the Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 dated September 24, 2021, ICRA had published its comments on such structured debt instruments which can be accessed [here](#).

The company's liquidity profile is supported by on-book liquidity and availability of funds from various lenders. The company's on-book liquidity as on Sep 30, 2022 was sufficient to meet its debt obligations for Oct 2022 while it continues to receive collections on a monthly basis. The company had unutilised sanctions of Rs. 3,839 crore as on Sep 30, 2022. The company has debt repayments of Rs. 1,523.16 crore between Oct 2022 and Dec 2022.

Rating sensitivities

For PP-MLD [ICRA]AA+(CE) (Stable)

Positive factors – The ratings are unlikely to be upgraded.

Negative factors – The rating could be downgraded on the non-adherence to the key transaction terms envisaged at the time of the rating and material deterioration in CAGL's credit profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Non-Banking Finance Companies Covered Bond Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

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 March 31, 2022, the company had a portfolio of Rs. 16,599 crore (consolidated) serving borrowers across 319 districts. On a standalone basis, the portfolio in Karnataka stood at 42.5% as on March 31, 2022 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)	FY2022 (Ind-AS)
Total Income excluding securitisation Income	1,638	1,907	2,156
Profit after tax	328	142	382
Net Worth	2,669	3,635	3,940
Total Managed Portfolio	9,893	11,195	13,618
Total Managed Assets	11,382	14,173	16,361
Return on Managed Assets	3.4%	1.1%	2.5%
Return on Net Worth	13.0%	4.5%	10.1%
Gearing (times)	3.1	2.7	3.0
*Gross NPA	1.6%	4.4%	3.1%
Net NPA	0.0%**	1.3%	0.9%
Net NPA / Net Worth	0.00%	3.8%	2.9%
CRAR	23.6%	31.8%	26.5%

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)	FY2022 (Ind-AS)
Total Income excluding Securitisation Income	1,659	2,324	2,605.4
Profit after Tax	335	131	357.1
Net Worth*	2,526	3,479	3,758
Total Managed Portfolio	11,996	13,462	16,490
Total Managed Assets	13,487	16,801	19,119
Return on Managed Assets	3.1%	0.9%	2.0%
Return on Net Worth (including minority interest and adjusted for goodwill)	13.7%	4.4%	9.9%
Gearing (times)	4.0	3.5	3.8
CRAR	-	26.8%	22.8%

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	Type	Current Rating (FY2023)		Chronology of Rating History for the Past 3 Years						Date & Rating in FY2020	
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2022		Date & Rating in FY2021			
				Jan 19, 2023	Mar 7, 2022	Sep 9, 2021	Aug 25, 2021	Apr 5, 2021	Mar 30, 2021		
1	PP-MLD	Long Term	100.0	100.0	PP-MLD [ICRA]AA+(CE) (Stable)	PP-MLD [ICRA]AA+(CE) (Stable)	PP-MLD [ICRA]AA+(CE) (Stable)	Provisional PP-MLD [ICRA]AA+(CE) (Stable)	-	-	-
2	PP-MLD	Long Term	50.0	50.0	PP-MLD [ICRA]AA+(CE) (Stable)	PP-MLD [ICRA]AA+(CE) (Stable)	PP-MLD [ICRA]AA+(CE) (Stable)	PP-MLD [ICRA]AA+(CE) (Stable)	PP-MLD [ICRA]AA+(CE) (Stable)	Provisional PP-MLD [ICRA]AA+(CE) (Stable)	-

For details on other ICRA-rated instruments of the company, refer to the rationales [here](#)

Complexity level of the rated instrument

Transaction Name	Instrument	Complexity Indicator
Archangel Trust 2021	Principal Protected Market Linked Debentures (PP-MLD)	Complex
CredAvenue Maximoff Trust 2021	Principal Protected Market Linked Debentures (PP-MLD)	Complex

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-I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE741K07421	PP-MLD	Aug 2021	8.90%*	Sep 2023^	100.00	PP-MLD [ICRA]AA+(CE) (Stable)
INE741K07397	PP-MLD	Mar 2021	9.00%*	Mar 2023^^	50.00	PP-MLD [ICRA]AA+(CE) (Stable)

* XIRR; Additionally, step-up interest of 4.0% is applicable from date of issuance in case of trigger event

^ Upon the occurrence of a trigger event, the legal final maturity date will be extended to August 2025

^^ Upon the occurrence of a trigger event, the legal final maturity date will be extended to March 2025

Source: Company

Annexure-II: List of entities considered for consolidated analysis

Not Applicable

Corrigendum:

Document dated January 19, 2023 has been corrected with revision as detailed below:

Complexity Indicator mentioned on page no. 5 has been corrected from 'Highly Complex' to 'Complex'.

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About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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