October 19, 2023

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
Long-term fund based – Term loan	5,580.00	5,580.00	[ICRA]AA- (Stable); reaffirmed
	0.00	500.00	[ICRA]AA- (Stable); assigned
Non-convertible debentures	184.00	184.00	[ICRA]AA- (Stable); reaffirmed
	582.17	0.00	[ICRA]AA- (Stable); reaffirmed and withdrawn
Commercial paper	500.00	500.00	[ICRA]A1+; reaffirmed
Subordinated debt	50.00	50.00	[ICRA]AA- (Stable); reaffirmed
Total	**6,896.17**	**6,814.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating action factors in CreditAccess Grameen Limited's (CA Grameen) healthy asset quality and earnings performance, supported by the steady improvement in FY2023 and Q1 FY2024[1]. The 0+ and 90+ days past due (dpd) improved to 1.2% and 0.7%, respectively, as of June 2023 from 1.5% and 1.0%, respectively, as of March 2023 and 4.9% and 2.7%, respectively, as of March 2022 (6.8% and 3.3%, respectively, as of March 2021). ICRA notes that the improvement in the asset quality was supported by the healthy collection efficiency[2], which stood at 98.8% as of June 2023 compared to 97.3% as of June 2022 (pre-Covid-19 pandemic collection efficiency was 98.3% as of December 2019).

CA Grameen's portfolio of Rs. 21,814.4 crore, as of June 2023, is the highest in the non-banking financial company – microfinance institution (NBFC-MFI) industry. It grew by 39.7% year-on-year (YoY) in Q1 FY2024. The profitability (return on average managed assets; RoMA) improved to 5.8% (annualised) in Q1 FY2024 and 3.9% in FY2023 from 2.0% in FY2022 and 0.9% in FY2021. ICRA expects CA Grameen's earnings performance to improve steadily going forward, with the moderation in the credit costs and the improvement in the portfolio yields in a steady-state environment.

The ratings continue to factor in CA Grameen's established presence in the microfinance industry and its comfortable capitalisation profile (managed gearing[3] of 3.7 times as of June 2023 and 3.9 times as of March 2023). The company's portfolio is expected to grow by ~25% per annum over the medium term with the managed gearing remaining below 4.0 times. Unsecured microfinance loans are expected to comprise ~90% of the portfolio over the medium term with the retail portfolio accounting for the balance (~10%).

The ratings also factor in the risks inherent in the microfinance business, considering the modest borrower profile and the regionally concentrated portfolio with Karnataka accounting for 33.0% of the portfolio as of March 2023 (33.2% as of March 2023 and 35.9% as on March 31, 2022). CA Grameen has been steadily expanding its geographical presence in the recent past and had operations in 15 states/Union Territories (UTs) as of June 2023, spread across 353 districts and 1,826 branches. ICRA

[1] *All figures and ratios prior to February 15, 2023, have been mentioned on a consolidated basis for CA Grameen and Madura Micro Finance Limited (MMFL); MMFL was amalgamated with CA Grameen with effect from February 15, 2023*

[2] *(Collections against current month's demand + Arrear collections)/Current month's demand*

[3] *Considering off-balance sheet direct assignment book as debt; net worth adjusted for goodwill and intangibles*

takes note of the company's significant rural presence and its predominantly weekly/bi-weekly collection model, which aids better client engagement levels. The revised guidelines for the microfinance industry have provided the players, including CA Grameen, with better pricing ability in view of the underlying risks and have also broadened the target segment.

ICRA has reaffirmed and simultaneously withdrawn the long-term rating of [ICRA]AA- with a Stable outlook on the Rs. 269.17 crore non-convertible debenture (NCD) programme as the instrument has been fully redeemed with no amount outstanding against the same. ICRA has also reaffirmed and simultaneously withdrawn the long-term rating of [ICRA]AA- with a Stable outlook on the Rs. 313.00-crore NCD programme at the request of the company. The rating has been withdrawn as per ICRA's policy on withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Largest NBFC-MFI with an established track record – CA Grameen is an established player in the microfinance industry with a track record of over 20 years. Built on the Grameen model of microfinance, the company has a predominantly rural presence with rural borrowers accounting for almost 84% of its total borrower base. Further, its predominantly weekly/bi-weekly collection model enables closer engagement levels with its borrower base. With a portfolio of Rs. 21,814.4 crore as on June 30, 2023, it is the largest NBFC-MFI in the country. The company's eight-member board of directors comprises the Managing Director (MD), three representatives from the parent company, i.e. CreditAccess India (CAI), and four independent directors, with experience in the areas of banking, microcredit, and financial services. Its senior management team comprises professionals with good functional expertise.

As of June 2023, CA Grameen had a borrower base of 44.2 lakh (19.9% YoY growth) with ~35% borrowers unique to the company. CA Grameen's existing loan products (income generation, family welfare, emergency loans, home improvement and retail loans) are diversified to complement the requirements of its borrowers while adhering to hygiene factors such as borrowers' vintage with the company, loan repayment history and creditworthiness. With the recent modifications in the Reserve Bank of India's (RBI) guidelines (reduction in the limit for qualifying assets to 75% from 85%), CA Grameen is diversifying its portfolio further. Pilot testing for the individual unsecured loan product as well as for the mortgage-backed secured business loan product has been completed and will be scaled up, going forward. Pilot testing of two-wheeler loans and gold loans is ongoing in select branches while it will commence in H2 FY2024 for affordable housing loans. ICRA notes that the company will be launching the new product segments through its existing branches and field staff network. With ~99% of the company's overall lending portfolio in the microfinance segment, the ability to scale up the borrower base to support the microfinance portfolio's growth and diversify to other new product segments, while maintaining good asset quality and profitability indicators, is crucial.

Comfortable capitalisation profile – CA Grameen's managed gearing stood at 3.7 times as on June 30, 2023 (3.9 times as on March 31, 2023 and March 31, 2022 and 3.6 times as on March 31, 2021). Its capitalisation profile has been supported by business growth and internal accruals. The adjusted net worth and capital-to-risk weighted assets ratio (CRAR) stood at Rs. 4,942.9 crore and 24.4%, respectively, as on June 30, 2023 (Rs. 3,608.7 crore and 22.8%, respectively, as of March 2022). The current internal generation, aided by the improvement in the lending yields, is expected to support the company's near-to-medium-term growth requirements, while keeping the capitalisation profile under control. CA Grameen's portfolio is expected to grow by ~25% per annum over the medium term with the managed gearing remaining below 4.0 times.

Healthy asset quality and earnings profile – Supported by the steady uptick in collections, CA Grameen's 0+dpd and 90+dpd improved to 1.2% and 0.7%, respectively, as of June 2023, from 1.5% and 1.0%, respectively, as of March 2023 (4.9% and 2.7%, respectively, as of March 2022). The collection efficiency (including overdue collections) stood at 98.8% for June 2023 (pre-pandemic collection efficiency stood at 98.3% as of December 2019). The company wrote off Rs. 587.0 crore in FY2023 (3.8% of the opening on-book loan portfolio in FY2023) and an additional Rs. 100.5 crore in Q1 FY2024 (0.5% of the opening on-book portfolio in FY2024). Its repayment model, with 61.5% of the portfolio having a weekly repayment frequency and 35.0% having a bi-weekly repayment frequency as of June 2023, enables frequent connect of the borrowers with the field officers.

The improvement in the asset quality and portfolio yields and the tightly managed operating costs have supported CA Grameen's overall profitability in the recent past. Credit costs, as a percentage of the average managed assets, moderated to 1.1% (annualised) in Q1 FY2024 and 1.6% in FY2023 from 2.9% in FY2022 (4.9% in FY2021). Further, operating costs remained range-bound at 3.8-4.0% between FY2020 and Q1 FY2024. Consequently, the return on managed assets (RoMA) and return on net worth (RoNW) improved to 5.8% and 29.3% (annualised), respectively, in Q1 FY2024 (3.9% and 20.2%, respectively, in FY2023) from 2.0% and 10.3%, respectively, in FY2022. Going forward, ICRA expects the profitability to remain healthy supported by favourable interest margins with operating and credit costs remaining under control.

Credit challenges

Regionally concentrated portfolio – As on June 30, 2023, CA Grameen had a presence in 15 states/UTs, namely Karnataka, Maharashtra, Madhya Pradesh, Tamil Nadu, Chhattisgarh, Odisha, Goa, Kerala, Puducherry, Jharkhand, Bihar, Gujarat, Rajasthan, West Bengal and Uttar Pradesh (UP) with Karnataka accounting for 33.0% of the loan portfolio (33.2% as on March 31, 2023 and 35.9% as on March 31, 2022). While this exposes the company to the risks associated with significant regional concentration, ICRA notes that CA Grameen's concentration in Karnataka has been reducing over the years (70% as on March 31, 2015 and around 80% as on March 31, 2013). The strategic acquisition of Madura Micro Finance Limited has helped reduce the concentration in Karnataka and Maharashtra to a certain extent. Karnataka, Maharashtra, and Tamil Nadu accounted for 73.5% of the loan portfolio as on June 30, 2023. Within Karnataka, the company's portfolio is spread across 33 districts. The share of Karnataka, Maharashtra and Tamil Nadu is expected to reduce further to 55-60% in the next 5 years as the company shall expand and diversify its portfolio to states like Gujarat, Rajasthan, UP, Bihar and Jharkhand. The company is also looking to expand to newer states like Andhra Pradesh, Telangana, Haryana, Himachal Pradesh, and Uttarakhand in the future.

CA Grameen follows a contiguous district-based approach along with a prudent customer onboarding and monitoring process, which provides some comfort. Its exposure in the top 10 districts (all in Karnataka and Maharashtra) accounted for 19.4% of its portfolio as on June 30, 2023. However, no single district had an exposure beyond 3% of the total portfolio. About 99% of the total 353 districts, in which the company has operations, has a per district portfolio of less than 2% (of the total loan book). These districts together accounted for 90.1% of the total loan book and the balance 1.0% had a per district portfolio of 2-3% (of the total loan book). In the near term, no single district is expected to have an exposure beyond 2% of the total portfolio.

Risks associated with microfinance business – The ratings factor in the risks associated with the marginal borrower profile, unsecured lending, business and political risks, along with the challenges associated with a high pace of growth and attrition. CA Grameen's ability to manage such risks while expanding in new geographies would be crucial. The company's ability to onboard borrowers with a good credit history, recruit and retain employees and maintain a geographically diversified portfolio would be key for managing high growth rates. While credit bureau checks and the regulatory ceiling on the borrower's fixed obligation to income ratio reduce concerns on overleveraging, issues related to the policies of MFIs, regarding their underwriting practices, borrowers' income and leverage assessment, multiple identity proof as well as gaps in the information available with the bureaus remain. The revised guidelines for the microfinance industry are expected to provide the players, including CA Grameen, with better pricing ability in view of the underlying risks.

Environmental and social risks

Given the service-oriented business of CA Grameen, its direct exposure to environmental risks as well as those emanating from regulations or policy changes is not material. While lending institutions can be exposed to environmental risks indirectly through their portfolio of assets, CA Grameen's exposure to environmentally sensitive segments remains moderate. However, most of its borrowers are in small businesses, with the majority engaged in essential commodity related activities, primarily dependent on local demand-supply forces. If such borrowers face livelihood disruptions because of physical climate adversities, the same could translate into credit risks for entities such as CA Grameen. CA Grameen has a predominantly weekly/bi-weekly meeting model, which helps in maintaining strong customer relationships, better control and early risk identification. Also, its contiguous district-based expansion strategy helps in better understanding and mitigation of risks on account of socio-political factors, overleveraging, competition, etc.

With regard to social risks, data security, customer privacy, adherence to fair practices and grievance redressal are among the key sources of vulnerability for MFIs as any material lapse could be detrimental to their reputation and invite regulatory censure. CA Grameen has not faced such lapses over the years, which highlights its sensitivity to such risks. CA Grameen's grievance redressal channels enable its ability to address borrowers' grievances in a timely manner. While the company contributes to promoting financial inclusion by lending to underserved women borrowers largely in rural areas, its lending practices remain prudent as reflected in the asset quality numbers in this segment compared with its peers.

Liquidity position: Strong

CA Grameen's cash and liquid investments stood at Rs. 1,772.5 crore as on August 31, 2023. Debt repayments (including interest payments) during September 2023-February 2024 stood at Rs. 4,976.1 crore. The available liquidity, including collections, is sufficient to cover debt obligations for the above-mentioned period. The company also had undrawn sanctions of Rs. 5,534.6 crore as on August 31, 2023. CA Grameen's asset-liability management profile (as on June 30, 2023) did not have any negative cumulative mismatch across any of the maturity buckets.

The company has been diversifying its liability profile. The share of funds raised through external commercial borrowings (ECBs) increased to 14.9% as of June 2023 and 8.8% as of March 2023 from 1.5% as of March 2022 and 1.9% as of March 2021. As of June 2023, the funding profile comprised bank borrowings (55.7%), ECBs (14.9%), borrowings from NBFCs/financial institutions (FIs; 12.2%), securitisation (8.9%), NCDs (7.8%), and subordinated debt (0.4%). CA Grameen has a diverse lender base with funding relationships with 47 commercial banks, 9 NBCS & FIs and 16 foreign lenders as of June 2023.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the company demonstrates a steady improvement in its scale and geographical diversification, with a reduction in the state-level concentration, while maintaining good asset quality and reporting a healthy liquidity and earnings profile.

Negative factors – Pressure on CA Grameen's ratings or outlook could arise if there is a deterioration in the asset quality, leading to the RoMA falling below 3% on a sustained basis, or if the managed gearing exceeds 4.5 times for a prolonged period.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies Policy on Withdrawal of Credit Ratings
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financials[4]

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 66.8%. CA Grameen got listed in FY2019 and it acquired 76% in MMFL in FY2020. MMFL was amalgamated with CA Grameen effective February 15, 2023. CA Grameen is engaged predominantly in microlending activities in Karnataka, Maharashtra, Tamil Nadu, Madhya Pradesh, Chhattisgarh, etc. As on June 30, 2023, it had a portfolio of Rs. 21,814 crore serving borrowers across 353 districts.

Key financial indicators (audited)

CreditAccess Grameen Limited	FY2021 (Ind-AS)	FY2022 (Ind-AS)	FY2023 (Ind-AS)	Q1 FY2024 (Ind-AS)
Total income	2,436.8	2,676.0	3,492.7	1,158.7
Profit after tax	131.4	357.1	826.1	348.5
Net worth*	3,314.6	3,608.7	4,581.6	4,942.9
Total managed portfolio	13,462.0	16,489.6	20,925.2	21,699.0
Total managed assets	16,800.8	19,119.0	23,740.0	24,652.0
Return on managed assets	0.9%	2.0%	3.9%	5.8%
Return on net worth	4.6%	10.3%	20.2%	29.3%
Managed gearing (times)	3.6	3.9	3.9	3.7
Gross stage 3 (%)	4.4%	3.7%	1.2%	0.9%
Net stage 3 (%)	1.4%	1.3%	0.4%	0.3%
CRAR	26.8%	22.8%	23.6%	24.4%

Note: Consolidated financials of CA Grameen and MMFL have been considered until the amalgamation of these entities in Feb 2023, i.e., for FY2021 and FY2022.
**Net worth adjusted for goodwill and intangibles; Amount in Rs. crore; Ratios as per ICRA's calculations*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

[4] *MMFL was amalgamated with CA Grameen with effect from February 15, 2023; until the amalgamation, consolidated financials of CA Grameen and MMFL has been considered.*

Rating history for past three years

	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating (FY2024) Date & Rating in FY2024	Chronology of Rating History for the Past 3 Years Date & Rating in FY2023		Date & Rating in FY2022		Date & Rating in FY2021				
					Oct-19-2023	Mar-28-2023	Jun-24-2022	Dec-24-2021	Aug-10-2021	Mar-30-2021	Jan-05-2021	Sep-04-2020	Jul-24-2020	May-18-2020
1	**NCD**	LT	184.00	184.00	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
			582.17	0.00	[ICRA]AA-(Stable); withdrawn	[ICRA]AA-(Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	**Long term-fund based-Term loan**	LT	6,080.00	6,080.00	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	**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+
4	**Subordinated debt**	LT	50.00	50.00	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	-	-	-	-	-	-	-	-

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

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD	Simple
CP	Very Simple
Long-term fund based – Term loan	Simple
Subordinated debt	Moderately 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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long-term fund based – Term loan**	Sep-30-20 to Sep-28-23	NA	Oct-05-23 To Aug-28-26	5,316.30	[ICRA]AA- (Stable)
NA	**Long-term fund based – Term loan (proposed)**	NA	NA	NA	763.70	[ICRA]AA- (Stable)
INE741K07223	**NCD**	Sep-28 -17	11.47-11.68%	Sep-28-23	39.00	[ICRA]AA- (Stable)
INE741K07280	**NCD**	Jun-26-20	10.00%	Jun-26 -23	50.00	[ICRA]AA- (Stable); withdrawn
INE741K07298	**NCD**	Jun-29-20	10.50%	Apr-21-23	72.50	[ICRA]AA- (Stable); withdrawn
INE741K07306	**NCD**	Jun-26-20	10.05%	Jul-3-23	30.00	[ICRA]AA- (Stable); withdrawn
INE741K07314	**NCD**	Jul-21-20	9.95%	Apr-21-23	100.00	[ICRA]AA- (Stable); withdrawn
INE741K07322	**NCD**	Jul-28-20	9.81%	Jul-30-23	16.67	[ICRA]AA- (Stable); withdrawn
INE741K07405	**NCD**	Mar-31-21	9.85%	Mar-31-26	145.00	[ICRA]AA- (Stable
NA	**NCD (proposed)**	NA	NA	NA	313.00	[ICRA]AA- (Stable); withdrawn
INE500S08018	**Subordinated debt**	Mar-30-17	14.25%	Mar-29-24	50.00	[ICRA]AA- (Stable)
NA	**CP (proposed)**	-	-	-	500.00	[ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

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