

April 05, 2021

CreditAccess Grameen Limited: Rating confirmed as final for market-linked debentures

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Principal Protected Market Linked Debentures (PP- MLD)	50.00	50.00	PP-MLD [ICRA]AA+(CE) (Stable); Provisional rating confirmed as final
Non-convertible Debenture	1,154.28	1,154.28	[ICRA]A+(Stable); outstanding
Commercial Paper	500.00	500.00	[ICRA]A1+; outstanding
Bank Facilities	3,500.00	3,500.00	[ICRA]A+(Stable); outstanding
Total	5,204.28	5,204.28	

Rating Without Explicit Credit Enhancement	[ICRA]A+
---	-----------------

*Instrument details are provided in Annexure-1

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

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

ICRA has confirmed the rating assigned to the Rs. 50.0-crore PP- MLDs as tabulated above. The finalisation of the rating follows the fulfilment of all the conditions under the structure as mentioned to ICRA including the execution of the transaction documents as confirmed by the Trustee, with the executed documentation being in line with the required terms of the structure.

The rating is based on the strength of the presence of a cover pool (30% over-collateralisation as a percentage of the PP-MLD outstanding and accrued interest) to support the servicing of the PP-MLDs in the event of non-payment by CreditAccess Grameen Limited (CAGL). CAGL has executed an assignment agreement and a power of attorney wherein it has agreed to assign the cover pool assets to CredAvenue Maximoff Trust 2021 (Trust) on the occurrence of a predefined trigger event (details given in the salient covenants of the rated facility section) during the tenure of the rated facility. With a trigger event, there would not be any requirement of any further deed or action for the assignment by CAGL. Post assignment, the Trust shall become the legal owner of the assigned receivables (i.e. the cover pool assets shall be bankruptcy remote from the other creditors of CAGL). In turn, the Trust will provide an unconditional and irrevocable guarantee to the debenture trustee of the rated PP-MLDs and would transfer all collections from the cover pool to the designated account¹ under its guarantee obligation.

The legal final maturity date of the transaction is 24 months and 5 days from the deemed date of allotment. The facility has a call option after 24 months from the deemed date. Failure on the part of CAGL to exercise the call option would be a trigger event. However, as per the terms of the transaction, upon the occurrence of a trigger event, the legal final maturity date will be extended to 48 months from the deemed date of allotment. All payments on the PP-MLDs (both principal and interest) are promised only on the legal final maturity date. The rating assigned by ICRA addresses the timely payment of the dues to the investors by the legal final maturity date (i.e. a default to the investor shall be defined as the non-receipt of payment from the cover pool by the legal final maturity date post occurrence of the trigger event, as per the terms of the transaction).

¹ An account monitored and operated by the Debenture Trustee

Adequacy of credit enhancement

The guarantee provided by the Trust is unconditional and irrevocable. Further, a Trustee-monitored payment mechanism is in place to ensure payments on the rated debt as given below:

- The primary obligation of meeting the PP-MLD payments is on CAGL; hence, CAGL shall fund the designated account to the extent of the principal and interest payable on the due date.

On the occurrence of a trigger event, the cover pool assets shall be immediately assigned to CredAvenue Maximoff Trust 2021. The Trust shall appoint CAGL as the servicer for the cover pool assets transferred. The collections from the cover pool will be used for payments to the debenture holders as per the payment mechanism given below:

- On T²-1, the servicer shall fund the Collection and Payment (C&P) Account to the extent of collections from the underlying cover pool.
- On T, Trustee shall transfer the entire amount from the C&P Account to the designated account for debt servicing.

The above attributes have led to an enhancement in the rating of the said instrument to PP-MLD [ICRA]AA+(CE) (Stable) against the rating without explicit credit enhancement of [ICRA]A+.

» Key predefined trigger events, the occurrence of which would lead to the invocation of the Trust guarantee, are given below:

- Failure of the Issuer to exercise or honour the call option on the Call Option Date
- Rating downgrade of CAGL to BBB+ or below
- Rating downgrade of the PP-MLDs to AA-(CE) or below
- Capital adequacy of issuer falls below 20%
- Gross non-performing assets (NPA) of the issuer goes above 7% up to December 31, 2021 and above 5% thereafter
- Net NPA of the Issuer goes above 3% up to December 31, 2021 and above 2% thereafter
- Issuer is unable to maintain the required cover on cover Pool assets
- Breach of any covenant by CAGL
- Material adverse effect on CAGL
- Cross default of CAGL

On the occurrence of the trigger event, the Trust guarantee would be invoked, and all collections deposited in the C&P Account by CAGL (acting as the servicer) shall be passed by the Trustee to the debenture holders.

Salient covenants of the rated facility

- » *Minimum security cover of 1.30x is to be maintained on the PP-MLD outstanding (including accrued interest) and the asset cover should consist of microfinance loans originated by CAGL; further, the cover pool assets need to be maintained/replenished by CAGL as per the eligibility criteria mentioned in the transaction documents.*
- » *For computing the minimum-security cover, only receivables that fall due within forty-seven months from the deemed date of allotment will be considered. Further, the contracts that are delinquent by more than 30 days would be excluded. Delinquent contracts upto 30+ dpd should not constitute more than 5% of the pool principal amount.*

Key rating drivers and their description

Credit strengths

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

² monthly payout date

Presence of cover pool to support servicing of PP-MLDs in event of non-payment by entity – The primary obligation of meeting the PP-MLD payments is on CAGL. However, if CAGL does not meet the expected payment on the PP-MLDs, the collections from the cover pool will be available to the Debenture Trustee. The principal as well as the interest amount on the PP-MLDs are promised to the investors on the legal final maturity date.

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 pool at any point of time.

Credit challenges

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

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 and the PP-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 IRR (minimum 15% IRR for subsequent pools). However, this is mitigated as most of the CAGL portfolio comprises loans with an IRR of ~19%.

On occurrence of trigger event in near term, pool performance will remain exposed to any fresh disruptions that may arise due to Covid-19 pandemic – Some borrowers are facing several challenges due to the impact of the Covid-19 pandemic. CAGL's ability to manage any fresh disruptions that may arise due to the pandemic would remain critical from a rating perspective, going forward.

Liquidity position

For the PP-MLD [ICRA]AA+(CE) (Stable) rating for Rs. 50-crore PP-MLDs: Strong

Both the principal and the interest amount on the PP-MLDs is promised to the lender on the legal final maturity date. This imparts significant liquidity support to the instrument. 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+(Stable)/[ICRA]A1+ rating: 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

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

Positive factors – The rating is 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.

The rating drivers for the other instruments of CAGL rated by ICRA can be found in this [link](#).

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies Rating Methodology for Covered Bond Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

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. 10,203 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 (standalone)

CAGL (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: None

Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					April 5, 2021	March 30, 2021	-	-
1	PP-MLD	Long Term	50.0	50.0	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

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 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
INE741K07397	PP-MLD	March 2021	9.00%*	March 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 March 2025

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

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Rachit Mehta

+91 22 6114 3423

rachit.mehta@icraindia.com

Sankha Subhra Banerjee

+91 22 6114 3420

sankha.banerjee@icraindia.com

Himanshi Doshi

+91 22 6114 3410

himanshi.doshi@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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.

For more information, visit www.icra.in

ICRA Limited



Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50



Branches



© Copyright, 2021 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.