March 07, 2022

CreditAccess Grameen Limited: Rating 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
PP-MLD	50.00	50.00	PP-MLD [ICRA]AA+(CE) (Stable); reaffirmed
Total	**150.00**	**150.00**	

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

The rating action takes into account the structural features available in each transaction such that in the event of non-payment by CreditAccess Grameen Limited (CAGL) of its expected repayments, the respective cover pools along with the cash collateral (if any) would be utilised to support the servicing of the rated instruments. 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 in case of PP-MLDs

The rating draws comfort from the established presence of CAGL in the microfinance industry. ICRA notes that the company witnessed a pressure on its asset quality owing to the Covid-19 pandemic. The improvement in the collection efficiency during the year (96%[1] in January 2022 from ~79% in May 2021), however, provides some comfort. Going forward, a sustained uptrend in the same would be key from a rating perspective. Furthermore, post any trigger event, the performance of the cover pool would remain exposed to any additional disruptions that may arise due to the pandemic.

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 rationales.

Rs. 100.00 crore PP-MLD (Archangel Trust 2021): Click here
Rs. 50.00 crore PP-MLD (CredAvenue Maximoff Trust 2021): Click here

[1] *Monthly collections excluding arrears/monthly demand*

Key rating drivers and their description

Credit strengths

Presence of cover pool to support servicing of the rated facility in the 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-MLD, the collections from the cover pool will be available to the Debenture Trustee. The principal as well as the interest on the PP-MLD are promised to the investors on the legal maturity date.

Stringent eligibility criteria for cover pool – The eligibility criteria of the cover pool for both the instruments is stringent. Contracts at the time of assignment should be current. 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 for both the transactions.

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 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 internal rate of return (IRR; minimum 15% IRR for subsequent pools). However, this is mitigated as most of CAGL's portfolio comprises loans with an IRR of ~19%.

In case of occurrence of trigger event in the near term, pool's performance will remain exposed to fresh disruptions that may arise due to the 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 with explicit credit enhancement: Strong

Both the principal and the interest amount on the PP-MLDs are promised to the lender on the legal final maturity date subject to the non-occurrence of a trigger event. 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 is unable to meet the scheduled payments on the PP-MLDs.

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

CAGL'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. CAGL's liquidity profile is further supported by the improvement in collections. As on November 30, 2021, CAGL 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

For PP-MLD rated 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 ~74%. CA Grameen got listed in FY2019 and it acquired 76% in Madura Micro Finance Limited in FY2020.

CA Grameen is involved 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+ days past due (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 (FY2022)				Chronology of Rating History for the Past 3 Years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022			Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					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)**	**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)**	**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)	Highly Complex
CredAvenue Maximoff Trust 2021	Principal Protected Market Linked Debentures (PP-MLD)	Highly 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: 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
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-2: List of entities considered for consolidated analysis

Not Applicable

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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

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