December 06, 2019

CreditAccess Grameen Limited – Update on Material Event

Summary of Rated Instrument

Instrument*	Rated Amount (Rs. crore)	Ratings Outstanding
Bank Facilities	2,500.00	[ICRA]A+ (Stable)
Non-convertible Debentures	551.00	[ICRA]A+ (Stable)
Subordinated Debt	14.03	[ICRA]A+ (Stable)
Commercial Paper	200.00	[ICRA]A1+
Total	**3,265.03**	

Material Event

ICRA has taken note of CreditAccess Grameen Limited's (CAGL) announcement, dated November 27, 2019, regarding the receipt of approval from the board for the proposed acquisition and eventual merger of Madura Micro Finance Limited (MMFL; rated [ICRA]BBB+(Stable)) with CAGL, through an approved scheme of arrangement, subject to various approvals including shareholder, statutory and other regulatory approvals.

In the first leg, CAGL would acquire a stake of up to 76.2% in MMFL from its existing shareholders (Elevar Equity Mauritius, A V Thomas & Co. Limited, Midland Rubber & Produce Co. Ltd, some minority shareholders and a part of the promoter shareholding) for a cash consideration of Rs. 666.4 crore. Following the acquisition, MMFL's board is expected to be reconstituted.

In the second leg, MMFL would be merged with CAGL through an approved scheme of arrangement. As a consideration for the merger, the residual shareholders of MMFL would be allotted 158 shares of CAGL for every 100 shares of MMFL. MMFL's promoter, Dr. Tara Thiagarajan, would act as an advisor to CAGL's board of directors after the merger. The acquisition of the majority stake and the subsequent merger are expected to be completed by November 2020, subject to various approvals.

Impact of the Material Event

The aforesaid acquisition is expected to aid CAGL in improving its geographical footprint, with its concentration in Karnataka reducing to 41% from 51%, while strengthening its market position as the largest NBFC-MFI in India. Access to MMFL's information technology systems is also expected to enhance the customer onboarding and data analytics capabilities of CAGL. However, the company's ability to integrate MMFL's operations in a timely and seamless manner would be crucial, especially given the differences in their operational models, field culture (field collection system at CAGL vs branch-level collections at MMFL), and collection cycles (predominantly weekly/fortnightly at CAGL vs monthly at MMFL), etc. The ability to keep the operating cost ratios under control while streamlining the business models of the entities would be a key monitorable. Given its comfortable capitalisation profile as on September 30, 2019 (managed gearing of 2.4x including DA[1] and regulatory Tier-I capital ratio of 32.8%), ICRA believes that CAGL should be able to finance the acquisition without significantly impacting its overall leverage or capital ratios. ICRA also notes that the company is likely to upfront the next equity capital raise to maintain the managed gearing under 5x.

[1] *DA – Direct assignment book*

ICRA expects CAGL's ratings to remain unaffected by this acquisition and the consequent merger with MMFL. ICRA, however, will continue to monitor the developments in this respect and the impact of the same on CAGL's credit risk profile.

The previous detailed rating rationale is available on the following link: Click here

Key financial indicators (Ind-AS)

Fiscal	FY2018	FY2019	H1 FY2020 (unaudited)
Total Income	864.9	1,231.3	751.0
Profit after Tax	212.5	321.8	196.7
Net Worth	1,437.5	2,365.1	2,555.2
Total Managed Portfolio	4,958.3	7,124.2	7,905.0
Total Managed Assets	5,176.3	7,878.8	8,814.8
Return on Managed Assets (%)	4.9%	4.9%	4.7%
Return on Net Worth (%)	20.0%	16.9%	16.0%
Gearing (times)	2.5	2.1	2.2
Gross NPA (%)	0.8%	0.6%	0.5%
Net NPA (%)	0.0%	0.2%	0.0%
Capital Adequacy Ratio (%)	29.6%	35.3%	34.2%

Amounts in Rs. crore; Source: Company's financial statements, ICRA research

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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.

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