CreditAccess Grameen Limited

September 07, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank facilities	2,500.00	2,500.00	[ICRA]A+(Stable); Revised from [ICRA]A (Positive)
Non-Convertible Debenture (NCD) Programme	887.00	887.00	[ICRA]A+(Stable); Revised from [ICRA]A (Positive)
Sub-ordinated Debt programme	22.00	22.00	[ICRA]A+(Stable); Revised from [ICRA]A (Positive)
Commercial Paper	200.00	200.00	[ICRA]A1+ / Rating reaffirmed
Total	**3,609.00**	**3,609.00**	

Rating action

ICRA has revised the long-term rating outstanding on the Rs.2,500.00 crore bank facilities, the Rs.887.00 crore NCD programme and the Rs.22.00 crore subordinated debt programme of CreditAccess Grameen Limited (CAGL or the company)[1] to [ICRA]A+ (pronounced ICRA A plus) from [ICRA]A (pronounced ICRA A)[2]. The outlook on the long term rating has been revised to Stable from Positive. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding on the Rs.200.00 crore commercial paper programme of the company.

Rationale

The rating upgrade takes into account successful completion of CAGL's initial public offering (IPO) in August 2018 resulting in a strengthened capitalization profile; and sustained improvement in the company's operating performance which was driven by portfolio growth. The company raised fresh equity of Rs.630.0 crore through IPO which in ICRA's opinion would improve, the company's gearing to about 1.9x (on a managed basis) as in Aug-2018 and allow CAGL to pursue growth opportunities while maintaining a comfortable risk adjusted capital structure over the medium term. CAGL is expected to keep its leverage under control (around 4.5x times) going forward. CAGL has reported steady improvement in pre-provision profit driven by enhanced operating efficiencies. The company has a diversified funding profile, with funding relationship with close to 50 lenders; the above along with the favourable asset liability profile provides comfort from a liquidity perspective.

The assigned rating continues to factor in CAGL's established track record in the microfinance industry, its experienced senior management team and the company's efficient risk management and monitoring systems. Following the additional provisioning attributed to demonetization related delinquencies, the company's profitability was impacted during FY2017 (RoA[3] of 2.3% in FY2017 as compared to 3.6% in FY2016); however, the same improved during FY2018 to 2.8% supported by lower credit costs.

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[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

[2] *100 lakh = 1 crore = 10 million*

[3] *Return on assets: Profit after tax / Average total assets*

At present, CAGL has presence in nine states viz, Karnataka, Maharashtra, Tamil Nadu, Madhya Pradesh, Odisha, Kerala, Goa, Puducherry and Chattisgarh; with Karnataka contributing to around 58% as on June 30, 2018. The ratings also take into account the company's monoline business and risks arising out of marginal profile of borrowers, unsecured nature of lending, and other risks associated with microfinance business. Going forward, the company's ability to maintain healthy asset quality indicators and capitalization as business expands would be key from a rating perspective.

Outlook: Stable

ICRA expects the company to grow while maintaining a comfortable capital structure. The outlook may be revised to positive, if CAGL is able to significantly diversify its geographical presence, while maintaining a comfortable leverage and earnings profile. The outlook may be revised to negative if CAGL reports material deterioration in asset quality or earnings and, weakening in the capitalisation profile.

Key rating drivers

Credit strengths

Established track record in microfinance activities; experienced senior management team - CAGL is an established player in the microfinance industry having presence for over 19 years. The company has a strong Board composition with experienced personnel from the areas of banking and microcredit; and has a senior management team comprising of professionals with good industry knowledge and who have been associated with CAGL for a long period.

Efficient monitoring and risk management mechanisms; robust management information systems (MIS) and internal audit processes - The company has a robust loan origination, monitoring and collection systems. Internal audits of the branches are bi-monthly and the scope and coverage are adequate in relation with the current operations of the company. The company also has a risk management team, for proactive assessment of various business and operating risks. All branches of CAGL are computerised and are connected by internet to the Head Office and have been using a core banking solution which allows real time monitoring and assessment. ICRA also takes cognisance of the company's information technology (IT) initiatives and the implementation of hand-held devices for certain functionalities of centre meetings which are expected to aid in further strengthening of its internal controls. Going forward, the company intends to strengthen the functionalities of the hand-held devices for customer on-boarding etc.

Comfortable capitalisation levels - The company received equity infusion to the extent of Rs.350.0 crore in FY2018 from its parent CreditAccess Asia. Additionally, the company's capital position was also supported by conversion of compulsorily convertible debentures of Rs.200.0 crore into equity resulting in improved gearing (2.5x in March 2018). During August 2018, the company completed its IPO thereby raising fresh equity of Rs.630.00 crore which has further strengthened its capitalization. ICRA notes that with current low gearing, CAGL's capitalization remains comfortable in relation to its envisaged portfolio CAGR of 55% over the next three years. Further, with demonetisation related overdue loans being provided for, CAGL's internal generation is expected to improve thereby providing further support to its capital position.

Comfortable profitability indicators - CAGL has maintained good operating efficiency over the years as reflected by cost to income ratio of about 39% and operating profit / average managed assets of 7.1% during FY2018. On account of additional provisioning during FY2017, the company's profitability declined to 2.3% in FY2017 from 3.6% in FY2016. However, for FY2018, CAGL's credit costs – albeit elevated compared to historical average – declined to 2.8% (3.4% in FY2017) thereby supporting its profitability, which stood at 2.8% during FY2018. Going forward, the company's ability to maintain good operating efficiency levels and control on credit costs would be critical for incremental profitability.

Adequate liquidity position, funding lines available from diverse lenders - CAGL's liquidity profile remains adequate with unencumbered cash and liquid investment balances of Rs.142.0 crore in addition to undrawn sanctioned bank lines in excess of 255.0 crore as on March 31, 2018. The company enjoys funding lines from a diverse base of about 50 lenders and has comfortable asset liability matching with residual tenure of liabilities being around 2-3 years, while that of assets being around 1-2 years.

Credit weaknesses

Significant regional concentration - CAGL has presence in nine states – Karnataka, Maharashtra, Madhya Pradesh, Tamil Nadu, Chhattisgarh, Odisha, Goa, Kerala and Puducherry. As on June 30, 2018, Karnataka accounted for about 58% of the company's portfolio exposing it to risks associated with significant regional concentration – although the same has been reducing over the years. Within Karnataka, the company's portfolio is spread across 30 districts. Further, ICRA takes note of CAGL's significant rural presence – close to 80% of the branches and about 75% of the portfolio, its predominantly weekly collection model and, prudent customer on-boarding and monitoring provides comfort to an extent. During FY2018, the company has also forayed into contiguous districts in the states of Odisha, Goa, Kerala and Puducherry which is expected to aid in reducing the concentration on Karnataka over the medium term.

Ability to manage political, communal and other risks in the microfinance sector – Microfinance industry is prone to socio-political and other risks, which could negatively impact the financial position. As on June 30, 2016, the company had good asset quality indicators with 0+ days past dues at Rs.2.88 crore (0.1%) which increased steeply to Rs.432.45 crore (13.9%) as on December 31, 2016 post demonetization. The deterioration continued during Q4 FY2017 with the 0+ dpd remaining high at Rs.451.98 crore (14.7%) and 90+ dpd at Rs.268.44 crore (8.03%). However, with improvement in currency circulation and the company's focused collection efforts, the same has witnessed improvement during FY2018 with 0+ dpd as on June 30, 2018 reducing to Rs.69.8 crore (1.3%) and 90+ dpd improving to Rs.43.7 crore (0.8%) – which was also aided by sizeable write-off of Rs.161.6 crore in FY2018. ICRA however notes that the company is carrying provisions about Rs.99.5 crore as on March 31, 2018 which is likely to keep the incremental impact of credit costs on profitability at low levels. Going forward, CAGL's ability to manage the risks arising out of marginal profile of borrowers, unsecured nature of lending, and the political, communal and other risks in its portfolio and across new geographies that it expands into would be crucial. Additionally, in line with the industry, the company's ability to on-board borrowers with good credit history along with recruitment and retention of employees, and the risks pertaining to borrower overleveraging given their access to informal funding sources would be key monitorables.

Limited product and revenue diversification - Presently, CAGL's portfolio comprises solely of microfinance loans - though the company offers various products within this category. In a bid to diversify its product portfolio and also be associated with its customers growing needs, the company has introduced two new products in the secured asset class – two-wheeler loans and small business loans. The company envisages this segment to account for about 10-15% of its portfolio over the next 3-5 years.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

ICRA's Credit Rating Methodology for Non-Banking Finance Companies

About the company:

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 program got transferred and transformed into an NBFC in 2007-08. The Company provides micro-credit to economically backward women through the joint liability group mechanism. CreditAccess Asia N.V. currently holds 98.9% stake in the company as in March 2018.

As in June 2018, CAGL had a portfolio of Rs.5,468 crore serving borrowers across 145 districts of Karnataka, Maharashtra, Tamil Nadu, Madhya Pradesh, Chhattisgarh, Odisha, Kerala, Goa and Puducherry.

The company reported a net profit of Rs.124.6 crore on a managed asset base of Rs.4,975 crore as against net profit of Rs.75.3 crore in FY2017 on a managed assets base of Rs.3,075 crore. The company reported a networth of Rs.1,427.9 crore as on March 31, 2018 and a managed gearing of 2.5 times.

Key Financial Indicators (Audited)

Fiscal	FY 2017	FY2018
Total Income (Rs. Crore)	704.5	868.6
Profit after Tax (Rs. Crore)	75.3	124.6
Net worth (Rs. Crore)	690.4	1,427.9
Total Managed Portfolio (Rs. Crore)	3,075.4	4,974.7
Total Managed Assets (Rs. Crore)	3,563.7	5,218.4
Return on Managed Assets (%)	2.3%	2.8%
Return on Net worth (%)	13.1%	11.8%
Gearing (times)	3.9	2.5
Gross NPA (%)	0.08%	1.97%
Net NPA (%)	0.0%	0.0%
Capital Adequacy Ratio (%)	29.7%	28.9%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)						Chronology of Rating History for the past 3 years			
					Date & Rating			FY2018	FY2017	FY2016	
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Sep 2018	Aug 2018	Apr 2018	Sep 2017	Aug 2016	Mar 2016	Jun 2015
1	Bank facilities	LT	2,500.00	2,500.00	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Positive)	ICRA]A Stable)	ICRA]A Stable)	ICRA]A- Positive)	ICRA]A- Stable)
2	NCD	LT	887.00	802.00	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Positive)	ICRA]A Stable)	ICRA]A Stable)	ICRA]A- Positive)	ICRA]A- Stable)
3	Sub-debt	LT	22.00	22.00	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Positive)	ICRA]A Stable)	ICRA]A Stable)	ICRA]A- Positive)	ICRA]A- Stable)
4	CP	ST	200.00	200.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	ICRA]A1	ICRA]A1	ICRA]A2+	ICRA]A2+

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Bank lines - Unallocated	-	-	-	2,500.00	[ICRA]A+ (Stable)
INE741K07082	NCD	17-Jul-2014	14.16%	13-Nov-2019	58.00	[ICRA]A+ (Stable)
INE741K07116	NCD	31-Mar-2015	14.50%	31-Mar-2021	30.00	[ICRA]A+ (Stable)
INE741K07132	NCD	30-Jun-2015	14.50%	30-Jun-2021	63.00	[ICRA]A+ (Stable)
INE741K07124	NCD	22-Oct-2014	15.00%	22-Oct-2017	30.00	[ICRA]A+ (Stable)
INE741K07140	NCD	19-Aug-2015	10.56%	19-Aug-2019	37.00	[ICRA]A+ (Stable)
INE741K07173	NCD	25-Nov-2013	11.60%	25-Nov-2019	50.00	[ICRA]A+ (Stable)
INE741K07090	NCD	25-Jul-2014	11.80%	25-Jul-2020	30.00	[ICRA]A+ (Stable)
INE741K07181	NCD	26-Feb-2014	12.10%	26-Feb-2020	30.00	[ICRA]A+ (Stable)
INE741K07157	NCD	29-Oct-2015	13.15%	29-Oct-2021	100.00	[ICRA]A+ (Stable)
INE741K07165	NCD	15-Sep-2016	12.30%	15-Sep-2022	100.00	[ICRA]A+ (Stable)
INE741K07215	NCD	31-Jul-2017	11.60%	31-Jul-2023	100.00	[ICRA]A+ (Stable)
INE741K07199	NCD	31-May-2017	10.34%	03-Jun-2022	135.00	[ICRA]A+ (Stable)
INE741K07223	NCD	28-Sep-2017	11.47%-11.53%	28-Sep-2023	39.00	[ICRA]A+ (Stable)
Unutilized	NCD	-	-	-	85.00	[ICRA]A+ (Stable)
INE741K08015	Sub-debt	20-Dec-2012	15.10%	05-Nov-2018	5.25	[ICRA]A+ (Stable)
INE741K08023	Sub-debt	13-Jun-2013	14.95%	05-May-2019	11.40	[ICRA]A+ (Stable)
Unutilized	Sub-debt	-	-	-	5.35	[ICRA]A+ (Stable)
Commercial Paper	CP	-	-	-	200.0	[ICRA]A1+

Source: CreditAccess Grameen Limited

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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.

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