

**March 19, 2020**

The General Manager  
Department of Corporate Services – Listing Dept.  
BSE Limited  
Phiroze Jeejeebhoy Towers Dalal  
Street  
Mumbai 400001  
Scrip code: **541770**

The Vice President, Listing Department National  
Stock Exchange of India Limited The Exchange  
Plaza  
Bandra Kurla Complex  
Bandra (East) Mumbai  
400051  
Scrip code: **CREDITACC**

**Dear Sir/Madam,**

**Subject: Rating of CreditAccess Grameen Limited**

We refer to our disclosures dated February 28, 2020 in terms of which CreditAccess Grameen Limited (the "Company"), informed you that India Ratings assigned ratings with respect to Long term loans and Non-Convertible Debentures.

The Company now wishes to inform you that India Ratings and Research (Ind-Ra) has now assigned rating of IND A+/Stable for additional Long-term bank loans of Rs. 10,000 million and affirmed the existing ratings.

The rating rationale issued by India Rating & Research is enclosed for reference.

**Thanking you,**

**Yours sincerely,  
For CreditAccess Grameen Limited**

**M J Mahadev Prakash  
Head- Compliance, Legal & Company Secretary  
Membership No: A16350**

**Our Financial Products**

# India Ratings Assigns CreditAccess Grameen's Additional Bank Loans 'IND A+'; Outlook Stable; Affirms Existing Rating

**18**

MAR 2020

By **Kumar Vishal**

India Ratings and Research (Ind-Ra) has taken the following rating actions on CreditAccess Grameen Limited's (CAGL) debt instruments:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Long-term bank loans	-	-	-	INR10,000	IND A+/Stable	Affirmed
Long-term bank loans	-	-	-	INR10,000	IND A+/Stable	Assigned
NCDs*	-	-	-	INR1,000	IND A+/Stable	Affirmed

\*Details given in annexure

## KEY RATING DRIVERS

**Large Franchise with Well-established Track Record:** CAGL has a well-established franchise, with an operational history of over two decades in the microfinance industry. The company benefits from its unique business model and penetration in rural areas, as evident from the fact that it has more branches per district (four branches against 3-3.5 for most large microfinance institutions (MFIs)) and higher borrower retention rates (about 85% v/s 70-75% for the industry) than its peers. Moreover, CAGL is one of the oldest MFIs in its key operating geographies of Karnataka and Maharashtra, where it has a dominant market position. Furthermore, the company is the largest non-banking microfinance institution (NBFC-MFI) in India, with a market share of about 12% in the non-banking microfinance institution (NBFC-MFI) segment and assets under management (AUM) of INR88,720 million as of December 2019. CAGL had a borrower base of 2.77 million spread across a network of 928 branches in 230 districts as of December 2019.

**Experienced Management Team; Adequate Risk Management Practices:** CAGL's top management has considerable experience in diverse areas such as banking and financial services, risk, strategy and auditing. Additionally, CAGL has built a second line of management, consisting of employees who have been associated with the company for a long time. The board of directors maintains a strong oversight over the company, with 50% of its members being independent.

CAGL has set up adequate risk management practices and internal controls. The company has an internal audit system in place to conduct audits and assign grading to all branches. Each branch is typically audited six times in a year. In addition, there is a separate quality control team that undertakes detailed process reviews in order to check instances of fraud. With respect to adoption of technology, which is important to maintain and monitor controls and reduce operational risks, the company is catching up with large MFI peers. The company also stated that the planned acquisition of Madura Microfinance will yield benefits in the medium term with respect to technological and analytics aspects.

**Higher-than-Peers Capitalisation with Lower Leverage:** CAGL's capital buffers are strong, with tier I capital adequacy ratio of 31.1% as of December 2019 (FY19: 34.4%) and equity-to-managed loans of 30.1% (FY19: 33.0%). The company's equity base increased to INR26,677 million in December 2019 (FY17: INR6,908 million) on account of equity infusion by the promoter as well as proceeds from its initial public offering. The high capital levels would provide a cushion against the concentration risk (49% concentration in Karnataka) and the idiosyncratic and systemic risks that are an inherent part of the unsecured microfinance segment. Ind-Ra expects the leverage ratio to increase from 2.4x in December 2019 (FY19: 2.1x, FY18: 2.5x) owing to the announced acquisition of Madura Microfinance (leverage ratio of about 5x) as well as the company's plans to grow at a CAGR of 30% (higher than the three-year average return on equity of 17.5%) over FY20-FY22. Ind-Ra expects the company to raise equity capital if the leverage increases to 3x-3.5x.

**Strong Profitability:** CAGL's profitability benefits from superior borrower retention rates, as reflected in better-than-peers return on average assets (on managed basis) of 4.5% in 9MFY20 (FY19: 4.9%). Moreover, the company derives operational efficiency from the large scale of operations, which translates into a lower operating costs-to-AUM ratio compared to its peers. Despite setting up branches in new geographies, CAGL has been able to contain its operating costs, as reflected in operating costs-to-managed AUM of 4.7% in 9MFY20 (FY19: 4.7%). Ind-Ra believes the company's ability to maintain borrowing costs as leverage rises and to control credit costs would remain essential for sustained higher profitability.

**Stable Asset Quality:** CAGL's gross NPARatio (the company follows a 60-day NPA recognition policy) was 0.85% at end-December 2019 (FY19: 0.6%). However, its Odpd increased to 2.1% at end-December 2019 (FY19: 0.8%) due to floods in parts of Karnataka and Maharashtra as well as impact of external interference in two districts of coastal Karnataka. As a result, credit costs increased to 1.6% in 9MFY20 (FY19: 1.2%). Moreover, the microfinance sector carries the risk of weak borrower profiles and unsecured nature of lending, as evident from the write-offs of about 4% witnessed by CAGL in FY18 due to demonetisation. Ind-Ra continues to believe that the sector is susceptible to idiosyncratic risks and the borrower overleverage concerns have not ebbed materially. The agency will

closely monitor the credit behaviour of the loan portfolio as CAGL expands into new geographies.

**Liquidity indicator - Adequate:** CAGL had adequate short-term asset funding surplus over liabilities as of December 2019, primarily led by the shorter tenor microfinance loans. The company had an average asset tenor of 15.5 months and an average liability tenor of 26.6 months. At end-December 2019, CAGL had cash and bank balances of INR9,742 million, which constituted about 10% of the total assets. There were no negative cumulative mismatches across all buckets as of December 2019. Notably, cumulative inflows exceeded cumulative outflows by at least 80% in the up-to-one-year maturity buckets. CAGL also had sanctioned but undrawn bank lines of INR10,000 million as of December 2019.

**Diversified Funding Sources, but High Dependence on Private Banks:** CAGL's balance sheet borrowings mix is skewed towards bank funding (56%), with 85% of bank funding attributable to private sector banks. Moreover, the share of the top five banks in the total funding mix increased to about 35% at end-December 2019 compared to 26% at end-FY18. Nevertheless, funding from National Bank for Agriculture and Rural Development (24%), Micro Units Development and Refinance Agency limited (4%), non-banking finance companies (2%), and capital market instruments such as non-convertible debentures, external commercial borrowings and subordinated debt (13%) provide funding diversity. The company also regularly taps off-balance sheet funding through direct assignments and securitisation (9% of overall on-and off-book funding), which lends further support to liquidity and bolsters funding diversity. Furthermore, the borrowings are at competitive rates, as they qualify as priority sector lending.

**Concentrated Geographical Presence:** CAGL has recently expanded its geographical footprints in Rajasthan, Gujarat, Jharkhand, Uttar Pradesh and Bihar. However, the top five states still accounted for 98.3% of its gross loan portfolio (GLP) as of December 2019. Its concentration in Karnataka has declined from the levels of 63% in FY16, but it remained high at 49.4% at end-December 2019. The share of the top 10 districts in the GLP declined to 30% as of December 2019 from about 42% in FY16.

CAGL ensures that the exposure to a single district does not account for more than 5% of the GLP. For some of its peer MFIs, the per district concentration limits are lower. Ind-Ra expects the company to reduce its district concentration limit to 4% in the near term. Ind-Ra expects the single state concentration to decline further in the medium term considering the expansion into new states as well as the announced acquisition of Madura Microfinance, with significant presence in Tamil Nadu. The management plans to bring down the concentration in Karnataka to about 30% by FY22.

## RATING SENSITIVITIES

**Positive:** A positive rating action will depend on material reduction in concentration metrics while maintaining strong capital buffers, stable asset quality, comfortable liquidity buffers and materially lower equity to AUM on a sustained basis.

**Negative:** Material deterioration in asset quality, funding challenges, significant negative mismatches in asset-liability profile impacting liquidity, leverage rising above 4x, or Stage 3 assets exceeding 5%, could lead to a negative rating action.

## COMPANY PROFILE

CreditAccess Grameen commenced operations in May 1999 as a project under the T. Muniswamappa Trust (TMT), a registered NGO in Bangalore. Subsequently, in 2007, the microfinance operations got transferred into an NBFC. CAGL offers collateral-free micro-loans to women from low-income households under the joint liability group (JLG) model. It also offers retail finance products to support the evolving needs of its existing customers. The average ticket size for microfinance loans is about INR31,100, while that for retail finance is INR68,600. The promoter group, CreditAccess Asia N.V. holds 80% stake in the company as of December 2019.

### FINANCIAL SUMMARY

Parameters	9MFY20	FY19	FY18
Total assets (INR million)	93,334.0	73,573.6	51,135.7
Total equity (INR million)	26,677.0	23,650.6	14,374.8
Net income (INR million)	3,047.2	3,217.6	2,124.8
Return on average managed assets (%)	4.5	4.9	4.9
Equity/managed assets (%)	26.4	29.9	28.1
Tier 1 capital (%)	31.1	34.4	28.2

Source: Company

## RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook
	Rating Type	Rated Limits (million)	Rating	19 February 2020

Long-term bank loans	Long-term	INR20,000	IND A+/Stable	IND A+/Stable
NCDs	Long-term	INR1,000	IND A+/Stable	IND A+/Stable

## ANNEXURE

Instrument Type	ISIN	Date of Allotment	Coupon (%)	Maturity Date	Amount (million)	Rating/Outlook
NCDs	INE741K07264	28 February 2020	10.5	28 February 2023	INR800	IND A+/Stable
				Limit unutilised	INR200	
				Total	INR1,000	

## COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity levels of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

## SOLICITATION DISCLOSURES

Additional information is available at [www.indiaratings.co.in](http://www.indiaratings.co.in). The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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## ABOUT INDIA RATINGS AND RESEARCH

**About India Ratings and Research:** India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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## Applicable Criteria

[Financial Institutions Rating Criteria](#)  
[Non-Bank Finance Companies Criteria](#)

## Analyst Names

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