

## RETAIL EQUITY RESEARCH

## CreditAccess Grameen Ltd.

Micro Finance

Sensex: 37,666

Nifty: 11,389

Subscribe

Price Range Rs. 418 - Rs. 422

07<sup>th</sup> August, 2018

## Leveraging rural credit opportunities...

CreditAccess Grameen Ltd (CAGL) is the 3<sup>rd</sup> largest NBFC-MFI in India in terms of gross loan portfolio (as of FY17). The company provides micro-loans to women customers predominantly in the rural areas primarily under the joint liability group (JLG) model, which comprised 87% of loan portfolio as of FY18. CAGL is promoted by CreditAccess Asia N.V, a multinational company specializing in MSE financing. The microfinance company enjoys the lowest operating expense ratios amongst the top-eight NBFC MFIs and SFBs showcasing operational efficiencies. Consequently, Net Interest Margin (NIM) stood at 12.7% in FY18, one of the best in the micro finance industry. CAGL's Gross NPA stood at 1.97% FY18 which was relatively better than its peers despite a challenging economic environment. Further, it has a strong capital position with a Capital adequacy ratio of 28.9% as on FY18 compared to the mandated CAR requirement of 15%. Proceeds from fresh issue will strengthen its capital position further. Driven by volume growth in loans as a result of extensive expansion in branch networks and stable NIMs, Net Interest Income (NII) and PAT grew at a CAGR of 58% and 36% respectively over FY15-18. With large segment of India's rural and semi-urban population currently unserved and underserved by formal financial institutions presents large opportunity to tap. On the valuation front, at upper price band of Rs422, the issue is reasonably priced at 2.9x on FY18 adjusted book value (post IPO dilution). Good return ratios, higher asset quality, and strong sponsorship of CAA, high customer retention rate places CAGL better prepared to reap profits from industry growth. We recommend 'Subscribe' to the issue with a long term perspective.

## Purpose of IPO

At the upper price band, total issue size (including OFS & Fresh issue) stands at Rs 1,131cr. Of this, CAGL plans to raise Rs630cr through fresh issue and will utilise these proceeds to augment the bank's capital base to meet the future capital requirements.

## Key Risks...

- Highly concentrated in states of Karnataka and Maharashtra states - accounts ~85% of gross AUM.
- Microfinance loans are unsecured and susceptible to operational and credit risks which may elevate NPAs.

## Peer Valuation...

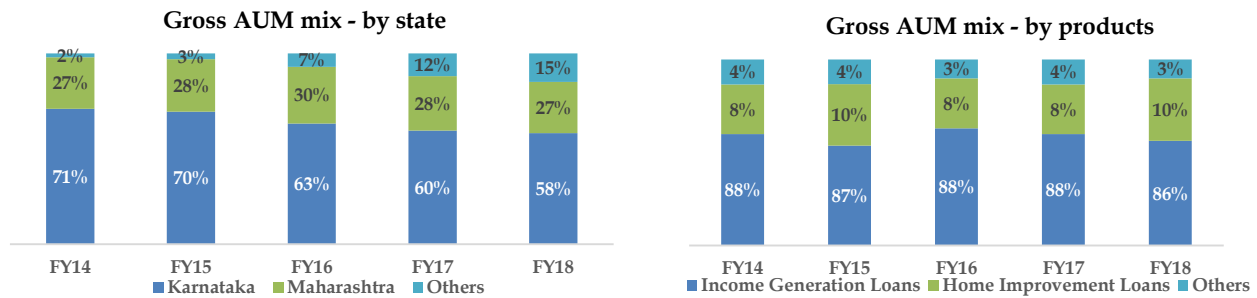
Company	MCap (Rs cr)	NII (Rs cr)	PAT (Rs cr)	AUM (cr)	RoA (%)	RoE (%)	ABV(Rs)	P/E	Adj P/BV
CreditAccess Grameen Ltd	6,050	411	125	4,974	2.8	11.8	144	49	2.9
Bharat Financial Inclusion	16,769	1,114	455	12,594	4.2	16.7	214.7	36.9	5.6
Satin Creditcare Network	1,800	334	4	4,989	0.08	0.5	199.2	-	1.8

Source: Geojit Research, Bloomberg; Note: Valuations of CAGL are based on upper end of the price band, Financials as per FY18

Issue Details				
Date of Opening	08 <sup>th</sup> August 2018			
Date of Closing	10 <sup>th</sup> August 2018			
Total no. of Shares offered(cr)	2.68			
Post Issue No. of shares (cr)	14.34			
Price Band	Rs. 418 - 422			
Face Value	Rs. 10			
Bid Lot	Multiples of 35 shares			
Listing	BSE & NSE			
Lead Manager	Credit Suisse Securities, ICICI Securities, IIFL, Kotak Mahindra Capital			
Registrars	Karvy Computer Share			
Issue size (at upper price)				
Fresh Issue	630			
OFS	501			
<b>Total Issue</b>	<b>1,131</b>			
Shareholding (%)				
	Pre Issue	Post Issue		
Promoters	99	80		
Others	1	20		
Total	100	100		
Issue structure		Allocation %	Size Rs.cr (at upper band)	
Retail	35	396		
Non Institutional	15	170		
QIB	50	566		
<b>Total</b>	<b>100</b>	<b>1,131</b>		
Y.E March (Rs cr)		FY16	FY17	FY18
NII	204	344	441	
Growth (%)	85	69	28	
NIM (%)	12.5	13.7	12.7	
PAT Adj	83.2	80.3	124.6	
Growth (%)	71	-4	55	
EPS	6	6	8.7	
P/E (x)	73	75	49	
P/B (x)	-	-	2.9	
Adj P/B (x)	-	-	2.9	
RoE (%)	19.9	14.0	11.8	

## Company Description

CreditAccess Grameen Ltd (CAGL), is the third largest NBFC-MFI in India in terms of gross loan portfolio (GLP) as of March 31, 2017 (according to CRISIL Research) focussed on providing micro-loans to women customers predominantly in rural areas in India. Among the top 15 NBFI-MFI players, CAGL has the highest number of loans per customer and had the second highest number of loans disbursed per loan officer (as of Mar 31, 2017). The company has presence in 132 districts in the eight states (Karnataka, Maharashtra, Tamil Nadu, Chhattisgarh, Madhya Pradesh, Odisha, Kerala and Goa) and one Union Territory (Puducherry) in India through 516 branches and 4,544 loan officers.



Source: RHP, Geojit Research

## An overview of operations...

The company concentrates predominantly on customers in rural areas of India, who largely lack access to the formal banking sector and presents a latent opportunity for offering micro-loans. CAGL's focus customer segment is women having an annual household income of Rs 1,60,000 or less in urban areas and Rs 1,00,000 or less in rural areas and provides loans under the joint liability group (JLG) model. In JLG model, borrowers form an informal group typically comprising 5-10 members and provide joint and several guarantees for loans obtained by each member of the group. Company's primary focus is to provide income generation loans to customers, which comprised 87.02% of CAGL's total loan portfolio, as of Mar 31, 2018. The company also provides other categories of loans such as family welfare loans, home improvement loans and emergency loans to existing customers. In 2016, in order to diversify its product profile, the company introduced individual retail finance loans for its existing customer (customer for at least three years). CAGL's operations are well diversified at the district level, with only 1 district contributing more than 5% of Gross AUM.

Exposure of districts	FY18		FY17		FY16		FY15	
% contribution to total loan portfolio	No. of districts	% of Districts	No. of districts	% of Districts	No. of districts	% of Districts	No. of districts	% of Districts
<0.5%	78	59%	42	44%	27	36%	22	34%
0.5% - 1%	22	17%	19	20%	12	16%	10	16%
1% - 3%	26	20%	29	30%	29	39%	19	30%
3% - 5%	5	4%	4	4%	2	4%	8	13%
>5%	1	1%	2	2%	3	4%	5	8%
<b>Total</b>	<b>132</b>	<b>100%</b>	<b>96</b>	<b>100%</b>	<b>74</b>	<b>100%</b>	<b>64</b>	<b>100%</b>

Source: RHP, Geojit Research

## Customer-centric business model...

Company's customer base increased from 0.5mn active customers as of Mar 31, 2014 to 1.85mn active customers as of Mar 31, 2018 with a very high active customer retention rate of 90% (annualized). With products that cater to the entire customer life cycle offering flexibility in terms of ticket sizes, access to different disbursement and repayment options at much lower interest rates has helped CAGL in generating loyalty amongst in existing customers and in attracting new customers. In terms of collections, the company has weekly, fortnightly and four-weekly collections which ensures customer repayment and keeps credit costs at optimal levels.

## Deep penetration in rural areas, built through contiguous district-based expansion...

CAGL's contiguous district-based expansion strategy has helped the company with significant scale and diversification advantages with deep penetration in rural areas. As of Mar 31, 2018, CAGL has its presence in 132 districts in eight states with 516 branches and 4,544 loan officers. CAGL possess large opportunity and lower competitive intensity in rural segments as major segment of India's rural and semi-urban population are currently unserved and underserved by formal financial institution

## Branch networks

State/Union Territory	FY2014	FY2015	FY2016	FY2017	FY2018
Karnataka	117	139	145	165	191
Maharashtra	54	84	102	122	144
Madhya Pradesh	-	6	29	53	63
Tamil Nadu	5	7	17	37	80
Chhattisgarh	-	2	5	16	25
Odisha	-	-	-	-	5
Kerala	-	-	-	-	5
Goa	-	-	-	-	2
Puducherry	-	-	-	-	1
<b>Total</b>	<b>176</b>	<b>238</b>	<b>298</b>	<b>393</b>	<b>516</b>

Source: RHP, Geojit Research

## Enjoys lowest operating costs among top 8 NBFCs-MFIs...

The company enjoys the lowest operating expense ratios (according to Crisil research) amongst the top-eight NBFC MFIs and SFBs for FY17, showcasing operational efficiencies. This was also reflected in the consistent decline in companies operating expense ratio which has declined from 6.76% for FY2014 to 5.69% in FY2017 and further to 4.96% for FY2018. CAGL's gross AUM grew at a CAGR of 57.45% to Rs4,974cr from Rs809cr in FY2014. Disbursements across financing products grew at a CAGR of 31.5% to Rs6,082cr in FY2018 from Rs1,028cr in FY2014.

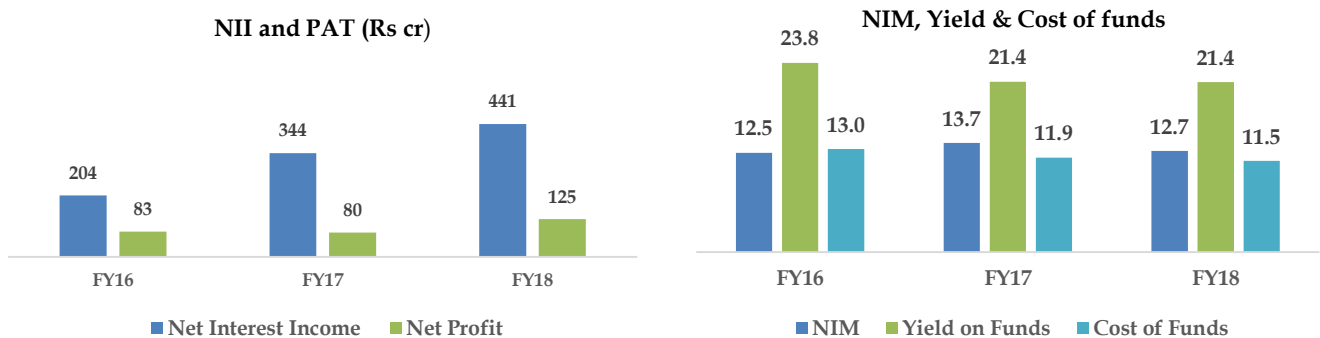
### Key financial & operational metrics

(in cr)	FY14	FY15	FY16	FY17	FY18
Gross AUM	809.5	1,447.0	2,538.7	3,075.4	4,974.6
Gross AUM growth	54.5	78.7	75.4	21.1	61.7
Disbursements	1,028	1,893	3,348	3,402	6,082
Disbursements growth %	69.5%	84.2%	76.8%	1.6%	78.7%
Active Customers	5,04,688	8,44,585	11,96,389	14,50,298	18,51,324
Revenue from operations	142	268	457	702	866
Operating Expense ratio	6.76%	6.26%	5.77%	5.69%	4.96%
Net Interest Margin (NIM)	10.5%	12.3%	12.5%	13.7%	12.7%
Gross NPA Ratio	0.01%	0.04%	0.08%	0.08%	1.97%
Net Worth	206	375.4	459	690	1,427

Source: RHP, Geojit Research

## Consistent financial performance...

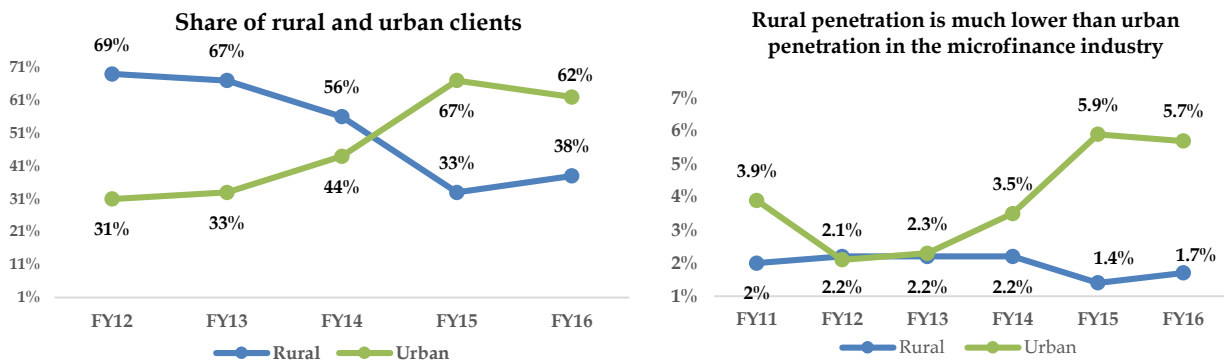
The company has maintained strong track record of financial performance and operating efficiency over the years through high rates of customer retention, geographical expansion, improved staff productivity, lower credit cost and growth in customer base led by branch expansion. Operational revenue grew at a CAGR of 38% to Rs 865cr over FY16-18 led by rise in interest on portfolio loans which was largely driven by volume growth in loans as a result of expansion in branch networks and customer base. Net Interest Income (NII) grew at a CAGR of 58% over FY15-18 while PAT grew at a CAGR of 36% over the same period.



Source: RHP, Geojit Research

## Industry Outlook

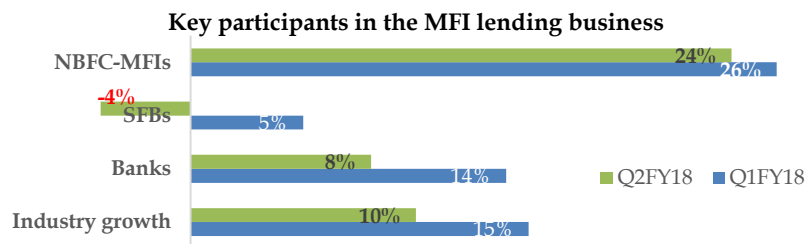
Financial inclusion is imperative for sustaining equitable growth and participation in economy by various socio-economic classes, as financial access correlates to increased economic opportunity. In India, a major reason for financial exclusion are poverty and low income, financial illiteracy, high transaction costs and lack of infrastructure. Consequently, a significant proportion of India's population still does not have access to formal banking facilities. Crisil research estimates that only 5-7% of India's rural population has a loan account with banks. India's rural areas account for half of GDP, but less than 10% of banking credit.



Source: RHP, Geojit Research

### NBFC-MFIs have grown the fastest in the MFI industry...

As of Mar 31, 2017, the microfinance industry has total loan portfolio of Rs1,718bn of which NBFC-MFIs account for ~ 20%. NBFCs-MFIs continue to grow at a fast clip, with outstanding loans increasing by 26% and 24% as of June 30, 2017 and Sep 30, 2017 respectively.



Source: RHP, Geojit Research

### Growth outlook for MFI Industry...

The GLP (Gross Loan Portfolio) of MFIs grew at 51% CAGR from FY2012-13 to FY2016-17 fuelled by the growth in GLP of some large players such as Janalakshmi microfinance, Bharat financial inclusion Ltd, Ujjivan financial services and CreditAccess Grameen Ltd. Crisil research notes that the opportunity to capture market share from unorganised lenders will continue to drive MFI industry growth in the future. MFIs may be able to expand their portfolio by servicing areas that are least penetrated and where unorganised moneylenders are predominantly present. Moreover, MFIs focus on the joint lending group (JLG) model while lending to borrowers as it is easy to form such groups. NBFC-MFI GLP increased by 25% in FY16-17 and is expected to grow at a CAGR of 26% over the next two years. Number of borrowers are expected to increase at a pace of 15% annually over the next two years on account of increasing penetration of microfinance in some low-penetrated areas where the unorganised segment still plays a major role. Following greater regularity clarity and demand for loans from states apart from AP, MFIs have increased market share from 30% in FY2014-15 to 53% in FY2016-17. The growth rate of MFIs is expected to remain relatively high in future, which will help them increase their market share further to 58%.

### Promoter and promoter group

CreditAccess Asia N.V (CAA), a multinational company specializing in MSE financing is the promoter of CAGL. CAA which is backed by institutional investors having micro-lending experience through its subsidiaries in four countries in Asia. Promoter holds 126,985,513 equity shares equivalent to 98.88% of the pre-offer issued, subscribed and paid-up equity share capital of the company. After the issue, CAA shall hold 80% of the post issue paid up equity share capital of the company.

### Highly Experienced Management

**Udaya Kumar Hebbar** is the MD & CEO of company. He holds a bachelor' degree in commerce from the University of Mysore and a master's degree in commerce from Karnataka University, Dharwad. He is a certificated associate from the Indian Institute of Bankers and holds a diploma from Vanderbilt University. He has served as the head, commercial and banking operations at Barclays Bank PLC, Mumbai for three years. He also served at Corporation Bank for a period of over ten years. He was also associated with ICICI Bank for over eleven years.

**Anal Kumar Jain** is an Independent Director of company. He holds a bachelor's degree of technology in electrical engineering from the Indian Institute of Technology, Kharagpur. He was associated with IBM World Trade Corporation till May 31, 1978 and was appointed as Assistant Manager at Shaw Wallace and Company Limited from 1978 to 1979. He also served at Ambalal Sarabhai Enterprises Private Limited as Regional Manager for a period of four years, as Vice President Marketing at Wipro Information Technology Limited for a period of three years and as Vice President, Marketing at TATA Information Systems Limited for a period of three years.

**R. Prabha** is an Independent Director of company. He holds a master's degree in science (Agriculture) from the Faculty of Agriculture, University of Kerala. He has served in Canara Bank for a period of over 35 years and retired from Canara Bank as General Manager. He also serves on the board of ESAF Small Finance Bank Limited.

**George Joseph** is an Independent Director of company. He holds a bachelor's degree in commerce from the University of Kerala. He is a certificated associate of the Indian Institute of Bankers. He has also completed a banking diploma from the Institute of Bankers, London and is an associate of the same. He was associated with Canara Bank for a period of over 36 years and was elevated from the post of General Manager, Canara Bank to Executive Director, Syndicate Bank in 2006. He was associated with Syndicate Bank for a period of 3 years and retired as Chairman and Managing Director in 2009. He serves as a director on the boards of Wonderla Holidays Limited, Muthoot Finance Limited and ESAF Small Finance Bank Limited.

## Financials

### Profit & Loss Account

Y.E March (Rs cr)	FY16	FY17	FY18
Interest Income	412	661	795
Interest Expense	208	317	355
<b>Net Interest Income</b>	<b>204</b>	<b>344</b>	<b>441</b>
<i>% change</i>	85%	69%	28%
Non-Interest Income	54	48	80
	258	393	521
<b>Operating Income</b>			
<b>Pre-Prov. profit</b>	<b>144</b>	<b>233</b>	<b>321</b>
Provisions	14	109	128
<b>PBT</b>	<b>129.5</b>	<b>124.3</b>	<b>192.9</b>
Tax	46	44	68
<i>Tax Rate (%)</i>	36%	35%	35%
<b>Reported PAT</b>	<b>83.2</b>	<b>80.3</b>	<b>124.6</b>
Adj	-	-	-
<b>Adj PAT</b>	<b>83.2</b>	<b>80.3</b>	<b>124.6</b>
<i>% change</i>	71%	-4%	55%
No. of shares (cr)	14.34	14.34	14.34
<b>Adj EPS (Rs)</b>	<b>6</b>	<b>6</b>	<b>8.7</b>
<i>% change</i>	71%	-4%	55%

### Balance Sheet

Y.E March (Rscr)	FY16	FY17	FY18
<b>Liabilities</b>			
Capital	73	86	128
Reserves & Surplus	387	605	1,299
Deposits	0	0	0
Borrowing	1,142	1,176	1,480
Provisions & Other	1,206	1,697	2,310
Liabilities			
<b>Total Liabilities</b>	<b>2,808</b>	<b>3,564</b>	<b>5,218</b>
<b>Assets</b>			
Fixed Assets	11	15	17
Investments	0	0	0
Advances	2,475	3,089	5,000
Other Assets	55	47	27
Cash & Balances	255	364	138
Deferred tax assets	11	48	36
<b>Total Assets</b>	<b>2,808</b>	<b>3,564</b>	<b>5,218</b>

### Ratios

Y.E March	FY16	FY17	FY18
<b>Per share data (Rs)</b>			
EPS	5.8	6	8.7
BV	32	48	144
ABV	32	48	144
<b>Spreads (%)</b>			
NIM	12.5	13.7	12.7
Yield on Funds	23.8	21.4	21.3
Cost of Funds	13.0	11.9	11.5
Interest Spread	10.8	9.5	9.9
<b>Capital (%)</b>			
CAR	21.5	29.7	28.9
Tier I	17.6	20.2	28.07
Tier II	3.9	9.5	0.87
<b>Asset Quality (%)</b>			
GNPA	0.08	0.08	1.97
NNPA	-	-	-
<b>Return Ratios (%)</b>			
RoE	19.9%	14.0%	11.8%
RoA	3.7%	2.5%	2.8%
<b>Valuations (x)</b>			
P/E (x)	73	75	49
P/BV (x)	-	-	2.9
P/ABV	-	-	2.9



## Investment Rating Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell. The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.

For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Neutral- The analyst has no investment opinion on the stock under review.

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Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing.

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