Retail Equity Research (South India Focus)

CreditAccess Grameen Ltd

NBFC—MFI

BSE CODE : 541770 NSE CODE: CREDITACC
BLOOMBERG CODE: CREDAG:IN SENSEX : 38,855

BUY

12M Investment Period — Rating as per Mid Cap

CMP Rs708 TARGET Rs824 RETURN +16%

(Closing: 11-09-20)

Acquisition of Madura microfin to drive value…

CreditAccess Grameen Limited (CAGL) is one of the leading Microfinance NBFCs in India with high focus on Group lending and Retail finance with majority of its operation in South India.

- **The growth of microfinance industry in India is a huge opportunity for NBFC MFIs as 41% of households in the country do not avail any banking services.**
- **We expect Net Interest Income to grow at 33% CAGR over FY19-FY22E driven by acquisition of Madura microfinance.**
- **Acquisition of Madura microfinance will strengthen the market leadership position of CAGL and diversify its geographic presence.**
- **Although 100% customers took moratorium for 3 months, 75% to 80% have started repayments, as rural areas were less impacted by lockdown.**
- **We expect PAT to grow to Rs 745cr in FY22E at 32% CAGR over FY19 to FY22E.**
- **We value CAGL at 2.9x on FY22E Adj. BVPS and arrive at a target price of Rs 824 and recommend 'Buy' rating.**

Growth of microfinance in rural India

Microfinance institutions play a huge role in financial inclusion by graduating poor customers to financially independent citizens. India has huge number of households without banking facilities in the rural areas. Though they significantly contribute to the GDP of the country, credit growth to these households in rural areas are still very minimal. NBFCs like CAGL has huge potential in tapping this market, by leveraging upon the group lending model to channel credit, to the needed areas of rural India.

Robust growth expected in Net Interest Income

Owing to the acquisition of Madura Microfinance Ltd (MMFL), we expect the Net Interest Income to rise gradually to Rs 1,896cr in FY22E. Although, the firm will face slowdown in operations and collection of interest income, due to the covid-19 pandemic, strong revenues will start kicking in, post lockdown. The opportunity for CAGL is the access to large customer base of Madura Microfinance Ltd (MMFL) whereby they will be able to provide their customer centric products to a larger borrower base and increase the wallet share per customer.

Acquisition to strengthen CAGL's leadership profile

In a highly competitive market like microfinance, CAGL being the largest NBFC MFI, will be able to strengthen its leadership by acquiring MMFL. It would enable the companies to take advantage of best practices in both the institutions. Post merger, CAGL could access large borrower base of MMFL and add one year of organic growth instantly whereas MMFL will benefit from the low cost structure of CAGL.

Adequate liquidity amidst pandemic

CAGL has adequate liquidity to meet all its payment obligations as they have long term loans of 2 to 6 years tenor which requires very low payments. Currently, CAGL has adequate liquidity as it has raised over Rs 1400cr in July. Also, being focused in the rural areas for microfinance, the impact of lockdown on its customers are minimal compared to urban areas as rural demand is still good. Presently, around 80% of customer have resumed their regular repayments. These factors will aid in mitigating the downside risk for CAGL going forward.

Valuations

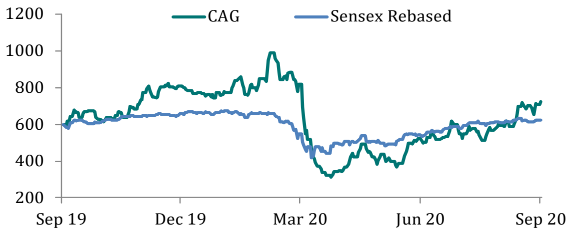
At CMP, the stock is trading at P/BV of 3x and 2.5x respectively for FY21E & FY22E Adj. BVPS. With the acquisition of MMFL, the company will become the undisputed leader among microfinance NBFCs and it would also allow strategic expansion to other geographies. With a large untapped market opportunity and demand on the stronger side along with low borrowing cost, we expect the synergies of acquisition to drive margin expansions over long term. Hence, we value CAGL at 2.9x on FY22E Adj. BVPS and arrive at a target price of Rs 824 and recommend 'Buy' rating.

Company Data	
Market Cap (cr)	Rs 10,287
Outstanding Shares (cr)	14.39
Free Float	20%
Dividend Yield	1.7%
52 week high	Rs 1,000
52 week low	Rs 305
6m average volume (cr)	0.02
Beta	1.47
Face value	Rs 10

Shareholding (%)	Q3FY20	Q4FY20	Q1FY21
Promoters	80	80	80
FII's	6.3	5.6	6.2
MFs/Insti	7.8	8.7	8.4
Public	6	5.7	5.5
Total	100	100	100
Promoter's pledge	0	0	0

Price Performance	3 month	6 Month	1 Year
Absolute Return	45.4%	31.5%	20.7%
Absolute Sensex	16.3%	35.4%	4.6%
Relative Return*	29.1%	-3.8%	16.2%

over or under performance to benchmark index



Standalone (Rs Cr)	FY20A	FY21E	FY22E
NII	1,053	1,582	1,896
Growth(%)	31.4	50.2	19.9
NIM(%)	11.51	13.27	13.60
Provisions	237	449	302
Adj. PAT	334	463	745
Growth(%)	4	38.7	61.1
Adj. EPS	23.2	31.5	50.8
Growth(%)	0	36.2	61.1
BVPS	190	233	284
Adj BVPS	190	233	284
P/E	30.5	22.4	13.9
P/B	3.73	3.03	2.49
Adj. P/B	3.73	3.03	2.49
ROE (%)	13.08	15.03	19.63

K Jose Francis
Research Analyst

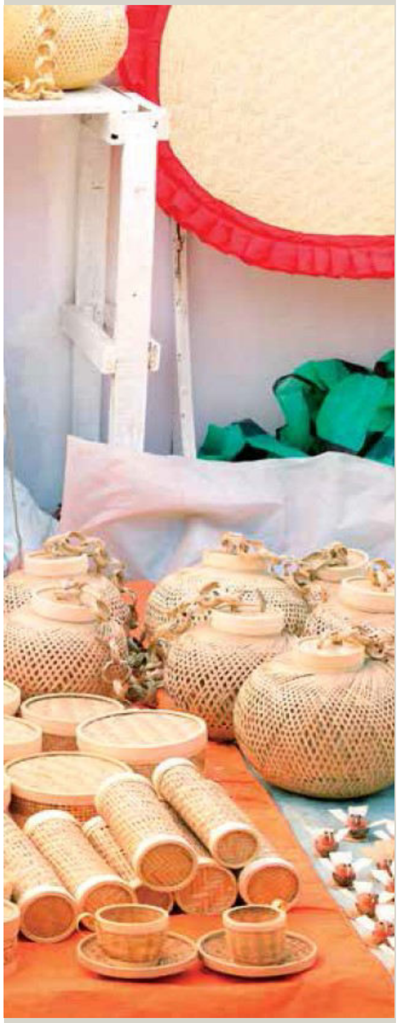
Company Background

Inspired by the stories of Bangladesh's poor who came out of poverty during the microfinance movement spearheaded by Prof. Muhammed Yunus, 2006 Nobel Laureate.

CreditAccess Grameen was founded in May 1999 as a project under the T. Muniswamappa Trust (TMT), an NGO in South Bangalore. Grameen Trust, Bangladesh, provided seed capital funding to TMT to replicate the Grameen Bank Bangladesh microfinance model. Adapting the Grameen Bank's group lending methodology of microfinance to the Indian setting, CA Grameen began its operations in Avalahalli, on the outskirts of Bengaluru giving collateral-free loans to women from low-income households to create equal opportunities for both the urban and rural poor.

With collateral-free loans, many households were able to raise their standard of living and came out of poverty. In a few years, CA Grameen created a class of financially literate women entrepreneurs, and eventually, they began to outgrow the group-lending model. During the initial years, women entrepreneurs' wise and productive use of monetary resources was observed, and CA Grameen started focusing in giving credit to women as they are an integral part of the community and play a key role in building the country's socio-economic ecosystem.

It was in 2007 that the microfinance activities of CA Grameen were transferred from an NGO to a well-regulated and registered NBFC. In 2013, the RBI reclassified CA Grameen into a regulated and governed NBFC-MFI. Grameen Koota continues to be operating brand name of CA Grameen.



Source: Status of Microfinance in India Report, NABARD

CreditAccess Asia subsidiaries

Subsidiary	Abbreviation	Place, Country	% Holding
CreditAccess Grameen Ltd.	CA Grameen	Bangalore, India	79.94
PT Konsultasi Mikro Ventura	KMV	Jakarta, Indonesia	99.99
PT Bina Artha Ventura	CA Indonesia	Jakarta, Indonesia	99.62
CreditAccess Philippines Financing Co. Inc.	CA Philippines	Pasig City, Philippines	100
MVH SRL	MVH	Brescia, Italy	100
CAA Vietnam Trading Company Ltd.	-	Vietnam	100
CAA BOS Ltd.	CAA BOS	Bangkok, Thailand	100
Sahayata Microfinance Pvt. Ltd.	-	Udaipur, India	31.34

Source: CreditAccess Asia Annual Report 2018/19, Geojit Research

The clients usually include women running retail shops, small-scale traders and family farmers. CAA currently serves over 3 million clients with 12,000+ employees operating through over 1,200 branches in India, Indonesia and the Philippines. CAA is a professionally managed company invested in by 200 shareholders. Among them: Olympus Capital Asia (US PE firm, focusing on mid-cap Asian companies) holds 18.6% and Asian Development Bank (ADB) holds 9.6%. The initial shareholders are a large group of family offices and HNIs still representing around 50% of the share capital. As of 30th June 2020, CAA holds around 79.91% shareholding in CreditAccess Grameen.

CreditAccess Asia - Facts & Figures

Subsidiary	Total	India	Indonesia	Philippines
Customers	3,071,764	82%	11%	7%
Employees	12,063	64%	23%	13%
Branches	1,196	56%	27%	17%

Source: CreditAccess Asia website, Geojit Research

Industry Structure

NBFC-MFIs is a specific category of NBFCs specialising in Microfinance loans.

Non-banking finance companies (NBFCs) form a vital part of the Indian financial system. As of 31st March 2019, there are around 192 lenders in India in the microfinance segment, comprising NBFC-MFIs, NBFCs, Banks, Small Finance Banks, and other non-profit entities. The NBFC-MFIs accounted for about 36.8% of the total microfinance lending. In terms of regional distribution of Gross Loan Portfolio (GLP), East & North East accounts for 38% of the total NBFC-MFI portfolio, South 24%, North 14%, West 15% and central contributes around 9%. Five top states in terms of loan amount outstanding are Karnataka, Bihar, Odisha, Maharashtra & Uttar Pradesh, which together account for about 52% of GLP, whereas top 10 states account for 84% of the total industry loan amount outstanding.

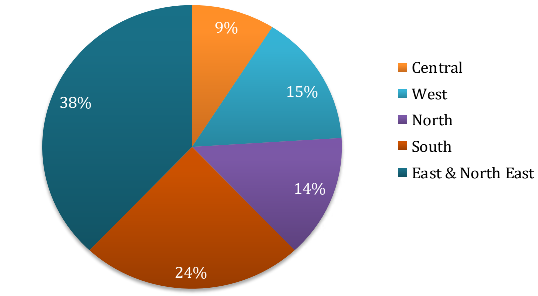
As of 31st March 2020, NBFC-MFIs accounted for aggregate gross loan portfolio (GLP) of around Rs.74,371 crores,

Performance of NBFC-MFIs in FY20

Parameter	As of March, 2020
Branches	14,275
Employees	1,16,738
Clients ~(cr)	3.22
Loan accounts (cr)	3.91
Gross Loan Portfolio (Rs cr)	74,371
Loans disbursed during the year (cr)	2.78
Loan amount disbursed during the year (Rs cr)	77,072

Source: Micrometer report, Geojit Research

Regional distribution of GLP



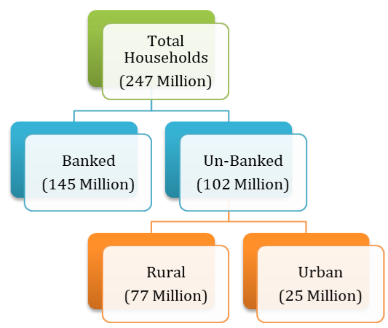
Source: MFIN Annual Report, Geojit Research

Investment Rationale

NBFC-MFIs are best placed to address rural credit needs

Rural areas account only 10% of overall outstanding bank credit while comprising 2/3rd of households and contributing ~47% of India's GDP.

Massive efforts from the government to boost financial inclusion gives a significant opportunity for NBFC-MFIs to capture market share from unorganized players and drive growth. As per the 2011 census, there are around 75% unbanked households in rural areas, which forms a major opportunity for NBFC-MFIs, especially for those microfinance institutions focussed on the rural segment of the Indian population. The fact that rural areas account only for 10% of overall outstanding bank credit while comprising 2/3rd of households and contributing ~47% of India's GDP (in 2016) gives an advantage for the rural focussed NBFC-MFIs like CAGL.

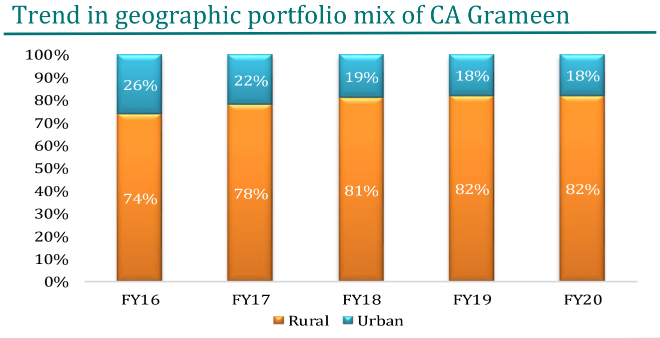


Source: Census data-2011, Geojit Research.

CAGLs increasing rural presence to give them more advantage compared to other microfinance institutions.

As of June 2020, around 82% of the borrowers serviced by CreditAccess Grameen are from rural areas. The branches are planned to cover a maximum number of villages located within a radius of 30Kms from each branch offices. Over the past years, the company has consistently improved its rural exposures.

Trend in geographic portfolio mix of CA Grameen



Source: Company updates, Geojit Research.

Favourable factors for NBFC-MFI Industry

With government & regulatory support, proven business model and customer centric practices, NBFC-MFIs continue to be best placed to improve market share.

Funding certainty

- MFIs continues to be under priority sector
- MFIs are proven successful model to address un-banked segments of the society

Government & regulatory support

- Strong thrust on financial inclusion
- Relaxation of maximum outstanding per customer
- Established credit bureaus framework

Proven operating model

- Distribution reach where traditional banks do not lend
- One of the lowest default rates among the financial space
- High customer touch point ~52 times in a year

Customer centric practices

- Doorstep delivery of services
- High focus on financial literacy of customers

Strong parentage of CreditAccess Asia

CreditAccess Grameen enjoys strong financial support from the parent company CreditAccess Asia, through multiple rounds of capital funding along with secondary purchase during 2009 to 2017.

As discussed in the company background, CreditAccess Grameen is promoted by CreditAccess Asia (CAA), specialised in micro and small enterprises financing, headquartered in Amsterdam, Netherlands with 79.91% shareholding as of June 2020. CAA operates in India & South East Asia through subsidiaries in India, Indonesia, Philippines & Vietnam. CAA is a professionally managed company with around 200 shareholders including Olympus Capital Asia (US PE firm, focusing on mid-cap Asian companies) holding 18.6% and Asian Development Bank (ADB) holding 9.6%.

CreditAccess Grameen enjoys strong financial support from the parent company CAA , with a strong Capital to Risk-weighted Assets Ratio (CRAR) of 23.7% as of June 2020. From 2009 to 2017, CAA has invested in CAGL through multiple rounds of capital funding along with secondary purchases. The parent company had displayed trust in the business model of CAGL by infusing Rs550cr post demonetisation in FY17. The strong parentage of CreditAccess Asia provides global fundraising opportunities for CA Grameen by leveraging CAA's networks and relationships. As per CAGL, CAA is committed in maintaining shareholding up to the level of regulatory requirement in the future.

Customer centric business model

CreditAccess Grameen has a 'Life Cycle Approach' for the design of products and services, catering to the needs of all customer needs during their life cycle. For CA Grameen, customer-centricity is the basic tenet in the design of products and processes.

A weekly Kendra meeting

Source: Company, Geojit Research.

The customer centric approach helped CAGL to maintain a high level of customer loyalty and a lower customer attrition rate.

CreditAccess Grameen provides significant flexibility to the customers with different borrowing limit, ticket size & disbursement for customers within a group. The customers can opt for weekly, bi-weekly or four-weekly repayment schedule depending on their cash flow pattern. Customers are also allowed to have multiple loans within the credit line or borrowing limit to meet their specific requirements. The company also maintains high customer engagement through weekly Kendra meetings with a strong focus on client protection, awareness building and grievance resolution.

The customer-centric approach of the company helped them to build a high level of customer loyalty, which in turn enhanced customer satisfaction thus lowering operating cost, controlling credit risk and reducing customer attrition rate. This has helped the company to bring in a larger portion of their loan growth from existing customers and lowering the customer acquisition cost.

Various customer centric products of CA Grameen includes Income Generation Loans, Home Improvement Loans, Family Welfare Loans, Emergency Loans & Retail Finance Loans.

Various customer centric products of CA Grameen

Loan Type	Product	Purpose	Ticket Size (Rs)	Tenure (M)	Yield
Group	Income Generation Loan (IGL)	Business investment & income enhancement activities	5,000 - 80,000	12– 30	19% - 21%
Group	Home Improvement Loans	Water connections, sanitation, home improvement & extensions	5,000 - 50,000	12 - 48	18%
Group	Family Welfare Loans	Festivals, medical, education & livelihood improvement	1,000 - 15,000	03 - 12	18%
Group	Emergency Loans	Emergencies	1000	03	18%
Individual	Retail Finance Loans	Purchase of inventory, machine, assets or for making capital investment in business or business expansion	Up to 5,00,000	06 - 60	20% - 22%

Source: Company updates, Geojit Research.

Income Generation Loans (IGL)

The Income generation loan (IGL) is a type of loan to support business enterprises and income enhancement activities like purchasing fixed assets such as additional machinery. This loan also acts as additional working capital. Customers can avail up to Rs 80,000 and can get the first IGL at 21 percent per annum on a declining balance. The second IGL loan can be availed at 19 percent per annum on declining balance and a supplementary income generation loan can be availed at 19 percent per annum on the declining balance. The tenure for IGL is a minimum of 52 weeks and a maximum of 120 weeks, depending on the loan amount.

Home Improvement Loans (HIL)

CAGL offers home improvement loans to help customers with water connections, toilet construction, or for home extension projects such as repairs or replacement of roof, walls, floors, and monsoon waterproofing. Customers can avail loans ranging from Rs 5,000 up to Rs 50,000 at 18 percent per annum interest on a declining balance. The tenure for home improvement loans is a minimum of 52 weeks and a maximum of 208 weeks, depending on the loan amount.

Family Welfare Loans (FWL)

CAGL customers can avail loans ranging from Rs 1,000 up to Rs 15,000 under the category of family welfare loans, depending on the purpose for which it is required. They can get the loan at 18 percent per annum interest on the declining balance. The tenure for such loans is between 24 weeks and 52 weeks, depending on the loan amount.

Emergency Loans (EL)

Customers can benefit from short-term loans to address their emergencies and short-term cash flow constraints. Customers can avail up to Rs 1,000 to handle a crisis situation at 18 percent per annum interest on a declining balance. The tenure for emergency loans is a maximum of 3 months.

Retail Finance Loans (RFL)

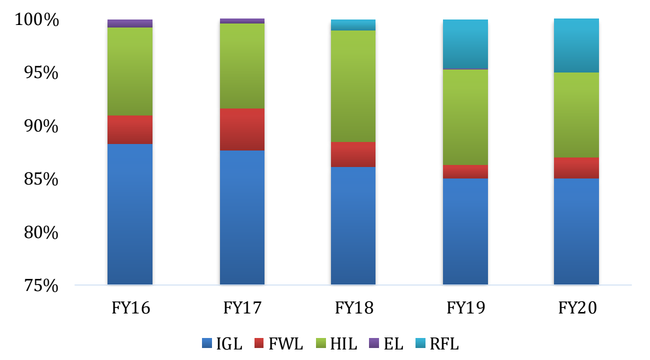
There are various types of retail finance loans as mentioned below,

- Grameen Udyog Loan
- Grameen Savaari Loan
- Grameen Vikas Loan
- Grameen Suvidha Loan
- Grameen Vaahan Loan

These loans are given for various purposes like expanding business activities, purchase machinery, purchase of new/used vehicles etc.

As of FY20, Income Generation Loans (IGL) constitutes around 85% of the total loan portfolio, and Retail Finance Loans (RFL) constitute around 5% of the total portfolio.

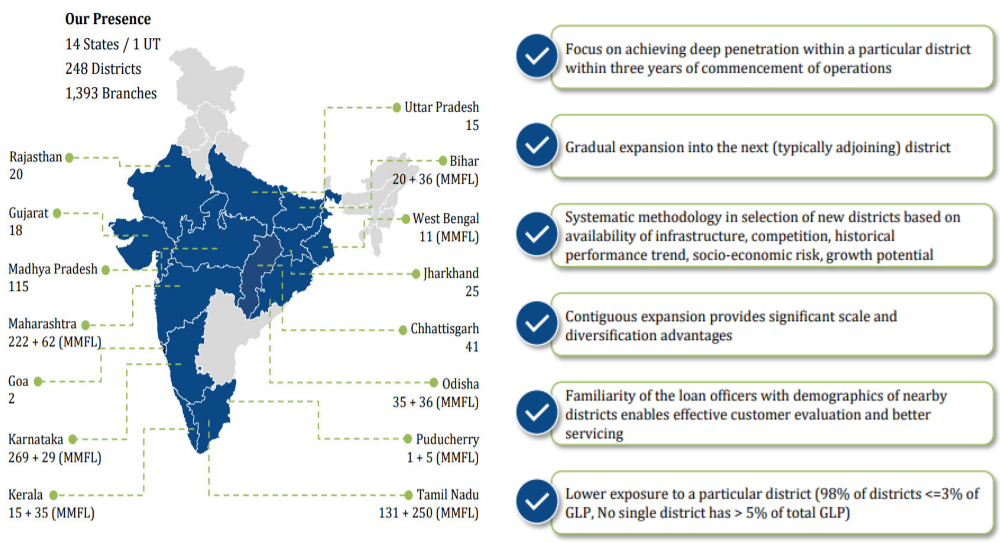
Product wise split of Gross AUM



Source: Company updates, Geojit Research.

CAGL's expansion strategy revolves around the systematic approach of deep rural penetration as officers gain better familiarity of the region.

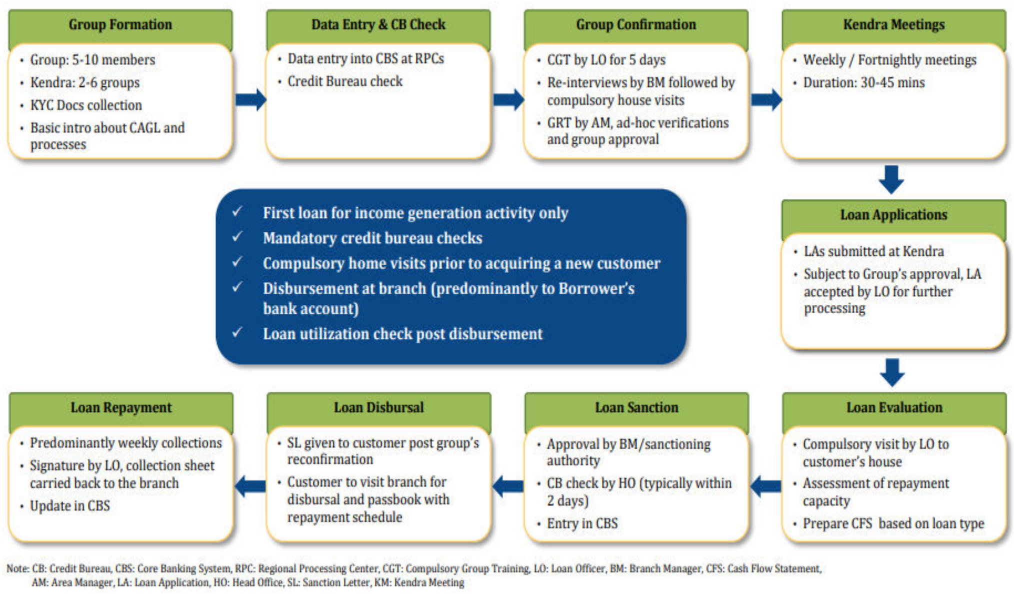
Expansion Strategy– Deep Rural Penetration



Source: Company updates, Geojit Research.

Joint Liability Group model is the main feature that leverages trust and peer pressure to place collective responsibility on all members of the group and avoids the need of traditional collateral.

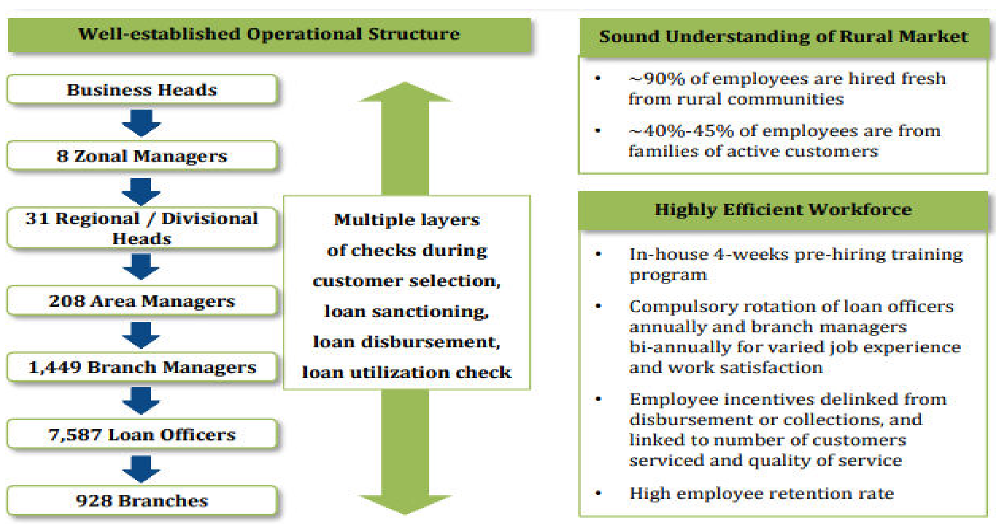
Joint Liability Group (JLG) Lending Model



Source: Company updates, Geojit Research.

Company has a well established operational structure which employs 90% from the rural communities to better connect with customers.

Strong Human Resource Pool

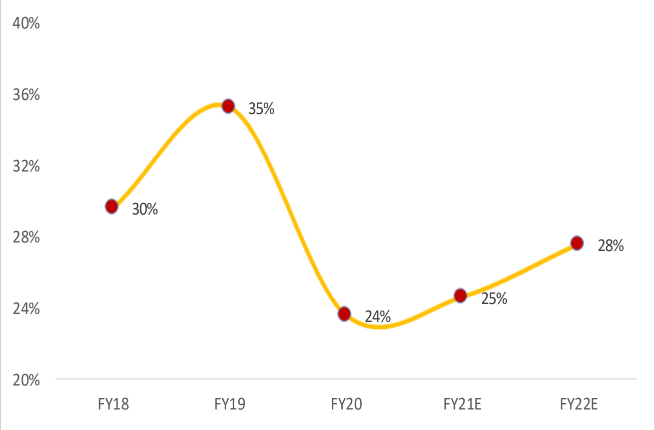


Source: Company updates, Geojit Research.

Company Fundamentals (standalone)

Capital Adequacy

Capital Adequacy Ratio to remain way above the required regulatory levels of 15% enabling the company to operate without raising any more capital. Company currently has plans to raise capital of Rs 1000cr through equity issue.



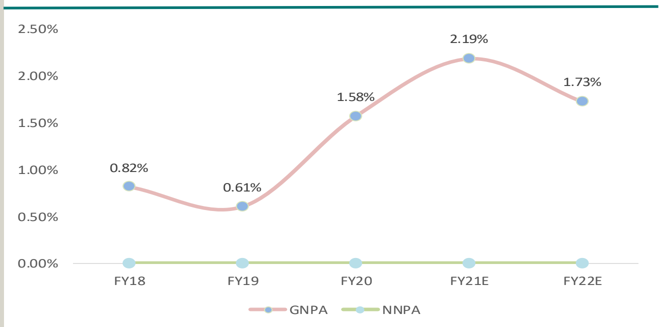
Source: Company updates, Geojit Research.

Capital Adequacy Ratio

- Risk weighted asset to decrease in FY21E, hence expect CAR to increase by 1%.
- Expect CAR to increase to 28% in FY22E as recovery happens.
- Company has approved for raising Rs 1000cr via equity issue.

Asset Quality

Asset Quality will remain under pressure affected by lockdown. Expecting recovery going forward as soon as economic activities open up to normal levels.



Source: Company updates, Geojit Research.

Asset quality of CAGL has been fairly well over the last years with slippages accounting for very marginal amounts. The GNPA has ballooned in FY18 and in FY20 due to droughts and floods in some geographies as well as due to the impact of covid-19 which has led to RBI declaring a 6 month moratorium. Even though the impact of pandemic is very high on microfinance institutions, we expect the effect to be less on CAGL due to its strong presence in rural areas. CAGL's strong customer connect will also help them to overcome this down cycle as they are able to make customers repay faster than their peers. Presently, 75 to 80% of customers have resumed their timely payments. GNPA stands stable at 1.6% in Q1 FY21 as compared to last quarter. CAGL's Expected Credit Loss is at around 4.4% against GNPA of 1.6% in Q1 FY21. Going forward, we expect GNPA to rise to 2.19% by FY21E due to covid-19 lockdown affecting economic activities. We expect GNPA to come down to 1.73% by FY22E as activities recover. However, we expect NNPA to stand at 0% going forward due to higher provisioning. Hence, CAGL is better positioned to absorb the credit losses.

Asset Liability Management

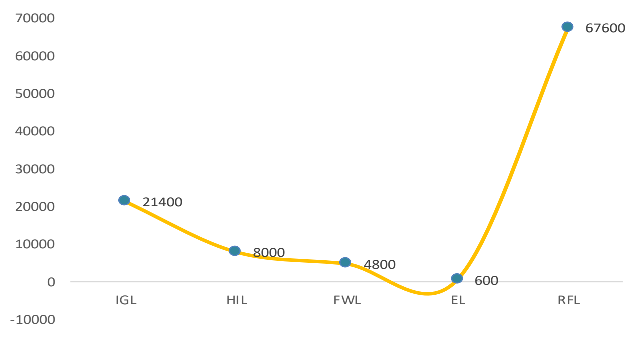
CAGL remains fairly well in terms of liquidity as the company has long term loans of 2 to 6 years maturity and hence has lower payments. CAGL focused on raising foreign funds to meet obligations going forward.

	For the month			For the Financial year	
Particulars (Rs cr)	**Jul-20**	**Aug-20**	**Sep-20**	**FY 21**	**FY 22**
Opening cash & Equivalents (A)	1171.8	1353.3	1705.6	1171.8	2255.2
Loan Recovery (principal) (B)	585	642.5	664	3515.1	4015.9
Total Inflow (C=A+B)	**1756.8**	**1995.9**	**2369.6**	**4686.8**	**6271.0**
Borrowing repayment (Principal)					
Term loans & Others (D)	318.5	222.5	406.3	2074.3	2426.8
NCDs (E)	30.0	0	39.0	54.2	92.9
Securitisation & DA (F)	54.9	67.8	60.0	303.2	290.3
Total Outflow (G=D+E+F)	**403.5**	**290.3**	**505.3**	**2431.7**	**2809.9**
Closing Cash & Equivalents (H=C-G)	**1353.3**	**1705.6**	**1864.3**	**2255.2**	**3461.1**
Static Liquidity (B-G)	**181.6**	**352.3**	**158.7**	**1083.4**	**1205.9**

Source: Company updates, Geojit Research.

Risk Factors

Average Ticket Size

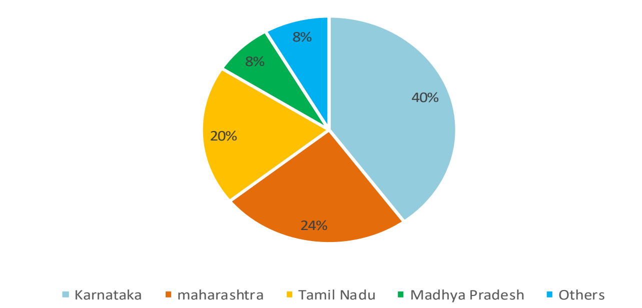


Source: Company updates, Geojit Research.

Avg Ticket size specified by RBI for a borrower is capped at Rs 1,25,000. CAGL's highest ticket size stands at Rs 67,600 for Retail finance in order to reduce the portfolio risk.

- CAGL has different ticket sizes for each of its products, varying from Rs 600 for Emergency loan to Rs 67,600 for Retail Finance Loan.
- The average ticket size for a borrower is capped at Rs 1,25,000 by the RBI. This is to ensure smooth and timely repayments by the borrower.
- Currently the Retail finance loans has highest ticket size of Rs 67,600. These are advanced to graduated customers who has shown strong credit practices in the past.
- As the number of graduated customers increase in the future, the demand for Retail finance loans will increase. This is expected to further increase the average ticket size of Retail finance loan going forward which in turn will increase the portfolio risk.
- Also, multiple borrowings from different microfinance institutions leads to borrowings higher than that specified by the regulator for a single customer (higher avg ticket size). This will also add stress to the portfolio during periods of falling economic activity.
- In order to bring down the risk in the portfolio, the company should roll out strong policies and procedures to check and confirm the ticket size of a borrower and exposures from other lenders.

Geographical Portfolio Mix (Consolidated)



Source: Company updates, Geojit Research.

CreditAccess has high portfolio exposures at Karnataka and Maharashtra which stands at 40% and 24% respectively.

- CAGL's loan portfolio exposure is highest in Karnataka with 40% share followed by Maharashtra with 24% share.
- These two states accounts for significant portion of the entire asset base, thus making the portfolio highly concentrated within these areas.
- The negative effects of portfolio concentration was seen many times over the past years in the form of natural disasters, political events etc.
- CAGL's collections were hurt in the past due to demonetisation. The rural households came under liquidity pressure and failed to repay periodic instalments.
- Also, the drought in Karnataka and the floods of North Karnataka and South Maharashtra also affected their collection efficiency. The pain was added by several external elements in these states who purposefully mislead customers for loan waivers.
- Having a significant portion of the portfolio in two states could have negative impacts on the earnings in the future during periods of heavy rains and other political phenomenon.
- CAGL is currently in the process of diversifying its overall portfolio across other states with good potential and infrastructure for growth of the company.

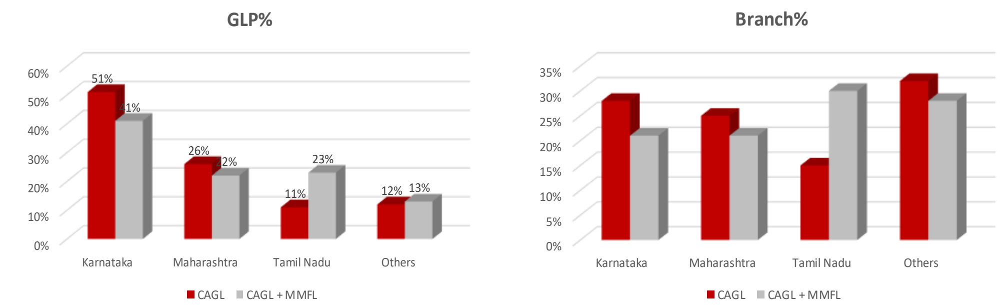
The way forward– Acquiring Madura Microfinance

Rationale for Merger

1. Access to large client Base & to achieve Geographic diversification

Post acquisition CAGL to provide its wide product portfolio to a large customer base and achieve geographic diversification.

- CAGL gets access to a borrower base of 11.1 lakh with very limited overlap of 0.5 lakh borrower base.
- Post merger, CAGL to become the market leader in Tamil Nadu.
- Achieves portfolio diversification by lowering exposure in Karnataka from 49% to 40%.
- Helps to scale operations in existing small markets like Bihar, Odisha etc.

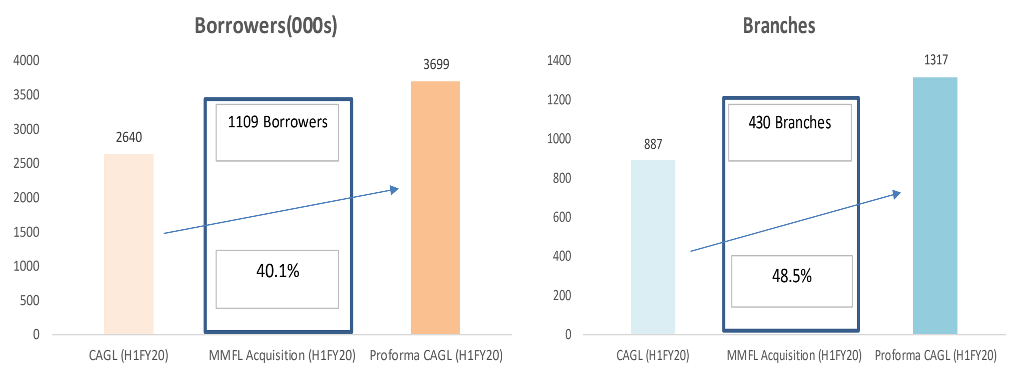


Source: Company updates, Geojit Research.

2. To acquire a high quality performer & accelerate CAGL's growth

CAGL to add one year of organic growth in terms of borrowers, portfolio and geographical presence post acquisition.

- MMFL is the 11th largest NBFC-MFI in the country with good asset base of Rs 2053cr.
- Company has a consistent track record of high degree profitability (Avg ROE: 23.3%).
- MMFL has a low cost structure driven by its salary structure, high productivity & operational efficiency.
- This transaction adds one year of organic growth to CAGL in terms of borrowers and branches.
- Strengthens the leadership profile in Industry, accelerates leverage position & improves ROE .



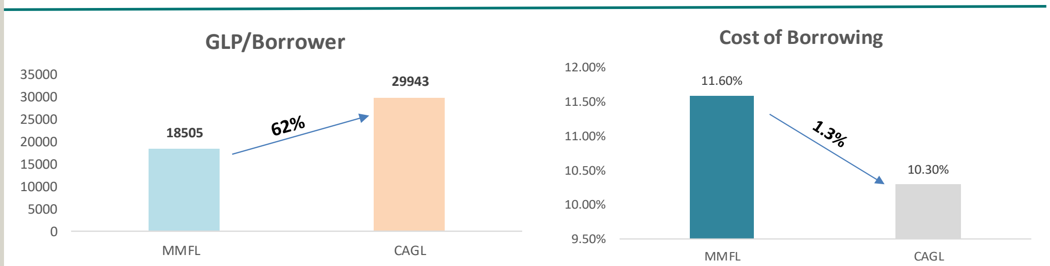
Source: Company updates, Geojit Research.

3. Synergies between CAGL & MMFL

MMFL has been successful in reducing its operating cost and will enjoy reduced cost of borrowing after acquisition.

- CAGL's customer centric approach and multi product strategy is estimated to increase the wallet share per MMFL's borrowers.
- Post merger, cost of borrowing for MMFL to be lowered due to better and cheaper sources of capital.
- Operating expenses to moderate due to branch rationalisation.
- Deeper and faster penetration in new and existing geographies where both entities are present.

CAGL with its large customer centric products can easily increase wallet share per customer post lockdown. There is a 62% potential upside for average ticket size of MMFL.



Source: Company updates, Geojit Research.

CAGL can improve its operations by leveraging technological innovations at MMFL to analyse data and client's risks.

4. Leverage MMFL's technological strengths

- MMFL has implemented innovative technology in various aspects of its business.
- CAGL can gain access to MMFL's intellectual property for enhanced data analysis and processing.
- CAGL to leverage technology for next phase of business growth and risk management.

Key Aspect	Overview	Impact
Technology in operations	Android mobile applications for sourcing, meetings, collections, audit	Real time information visibility for effective risk monitoring and control and fast decision making
Data Analytics	Data analytics using customer data, industry data, demographic data, psychometrics, transaction data	Customer analytics for future process, predictive analysis– collections & frauds
Scalable Technology Architecture	Unified technology architecture to drive efficiency and scalability	Provides flexibility and scalability without increasing costs proportionally for growth

Source: Company updates, Geojit Research.

Management Team of CreditAccess Grameen

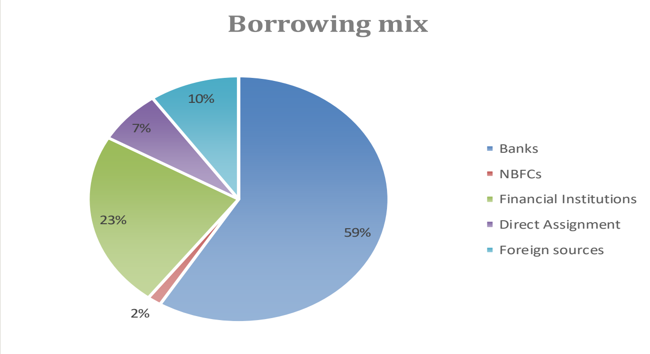
Mr Udaya Kumar Hebbar is the Managing Director and CEO of CreditAccess Grameen Ltd.

Source: Company updates, Geojit Research.

Category	Name of Directors
Executive Director	Mr. Udaya Kumar Hebbar, Managing Director & CEO
Non-Executive-Non-Independent Directors	Mr. Paolo Brichetti Mr. Massimo Vita Mr. Sumit Kumar
Non-Executive-Independent Directors	Mr. M N Gopinath, Chairman Mr. George Joseph Mr. Anal Kumar Jain Mr. R Prabha Ms Sucharita Mukherjee

Financials

Borrowing mix



Source: Company updates, Geojit Research.

Banks represent the major borrowing source for CAGL followed by financial Institutions. CAGL is likely to diversify the borrowing mix more across its sources to reduce risk going forward.

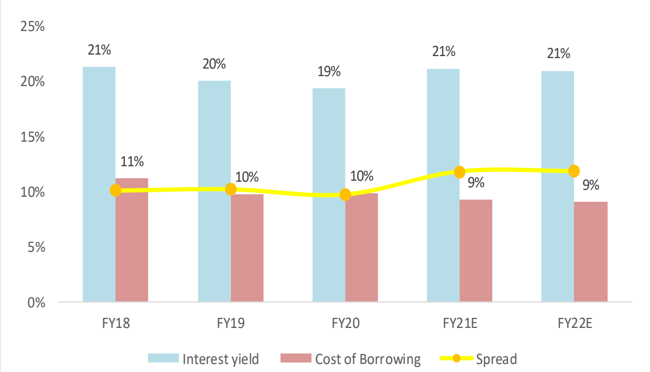
Company has a borrowing mix diversified across Banks, NBFCs, Financial Institutions, Foreign sources etc. CAGL's major exposure is in Banks followed by financial institutions and finally down to NBFCs. CAGL has reduced its exposure in Banks from 62% to 59% over the last quarter. Exposure in NBFCs also got reduced from 2% to 1.5% whereas the company has increased its dependence on PTCs for funds from 5% to 7% respectively. Borrowings from financial institutions also increased from 20% to 23%. Further, borrowings from foreign sources have been reduced from 10.6% to 9.7%.

Credit Rating

Rating Instrument	Rating Agency	Rating/Grading Q1 FY21
Bank facilities	Crisil, ICRA, Ind-Ra	A+(stable), A+(Stable), A+(RWN)
Non-convertible Debentures	Crisil, ICRA, Ind-Ra	A+(stable), A+(Stable), A+(RWN)
Subordinated Debt	ICRA	A+ (Stable)
Commercial paper	ICRA	A1+
Comprehensive microfinance grading	CRISIL/SMERA	M1C1
Social Rating	M-CRIL	Sum (A)
Social Bond Framework	Sustainalytics	Certified

Source: Company updates, Geojit Research.

Yield and Cost to remain stable



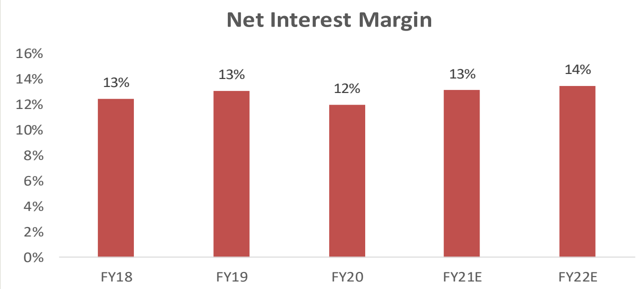
Source: Company updates, Geojit Research.

Spread to increase over the long term as disbursements are made to larger borrowing base.

- Interest yield for FY20 has come down by 1% compared to previous year. Going forward, we expect the yield to increase in FY21 due to fast pace recovery in rural areas post covid and hence higher credit needs. In FY22E, we expect yield and spread to remain stable .
- We expect cost of borrowing to come down as interest rates are declining. Also, the availability of cheaper credit lines from foreign sources will help in effective cost reduction. Post recovery, cost of funds will climb back to old levels over long term, as credit flows start happening smoothly.
- Going forward, we expect the net spread to widen due to rising yields and lower cost of funds. In FY22E, we expect the spread to widen to 12%.

Net Interest Margin

NIM to decline in FY21 due to lockdown and recover subsequently as operations resume.

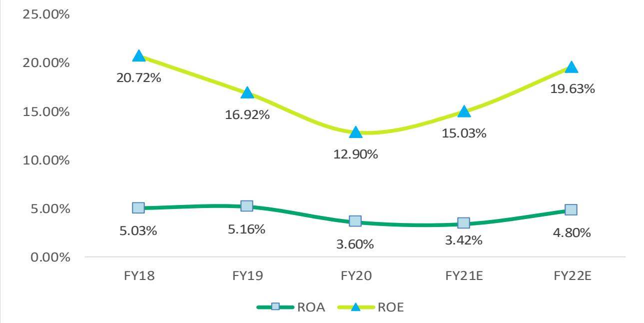


Source: Company updates, Geojit Research.

- Net interest margin is the interest received on all the interest bearing assets for the year.
- Net interest margin will grow to 13% in FY21E as recovery in rural economic activities are happening at a faster pace and customers are largely engaged in agricultural activities where the outlook is positive. Also, credit needs are rising for households amid pandemic.

Return Ratios

Return ratios are affected due to floods in Karnataka and Maharashtra along with the current pandemic. We'll see a recovery in return ratios after operations start.

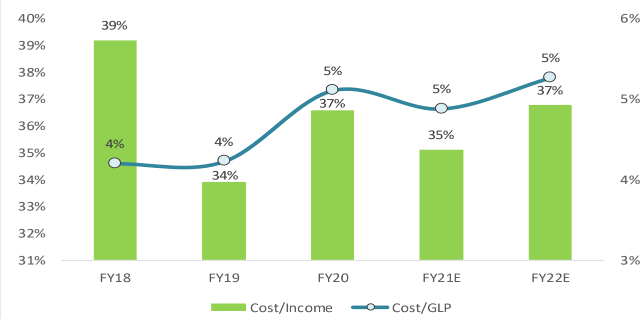


Source: Company updates, Geojit Research.

- FY20 ROE has come down due to the flood issues in Karnataka and Maharashtra as this had created 25% of borrowers in the disaster struck area to seek for loan waiver due to influence of some external elements. Going forward, we expect Return on Equity to rise in FY21E as CAGL will lend to a larger borrowing base and increase its wallet share per customer. We expect ROE will rise owing to increased profitability by servicing new clients of Madura Microfinance and expansion of business in current and new geographies.
- Although, acquiring MMFL brings in a large asset base and the impact of covid-19 lowers ROA for FY21E, we expect recovery to happen soon as branches reach their full potential. We expect ROA to bounce to 4.8% by FY22E. We expect strong PAT growth in FY22E due to higher client base post acquisition and hence higher return ratios for CAGL going forward.

Operating Efficiency

Management has indicated to control employee compensation costs going forward.

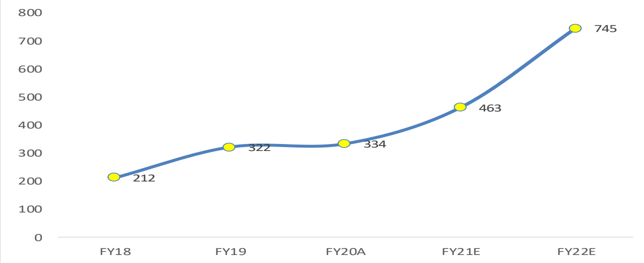


Source: Company updates, Geojit Research.

We expect cost to be in control with growth as employee compensation will be reduced in the current situation while the company cannot reduce any non employee operating expense going forward. CAGL will control costs in tandem with the growth achieved going forward.

PAT to improve going forward after temporary hiccups in the business landscape and will tend to enjoy higher PAT due to higher client retention and higher borrower base due to acquisition.

Profit After Tax (in Crs)

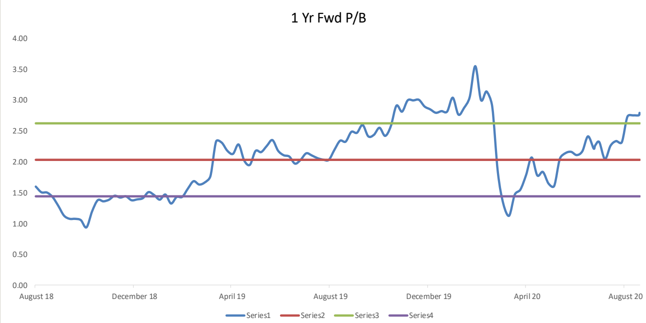


Source: Company updates, Geojit Research.

CAGL's profit after tax is expected to increase almost exponentially due to high organic and inorganic growth. Majority of India's population lack banking services and in the rural area, the proportion of unbanked are higher compared to the Urban areas. Since CAGL focuses on capital requirements of rural unbanked segments of the society, the opportunity is very large. Also, their Customer retention rate will also help in bringing more businesses from the same client over long time periods until they become graduated borrowers with proper credit history. Inorganic growth from MMFL acquisition will also help to cater to its borrower base effectively, helping CAGL to keep the momentum of lending high. Going forward, expansion to other areas will open up new opportunities for the company. Short term headwinds affecting the company, like the pandemic will weigh down on its PAT whereas we expect recovery in rural segments to happen very fast after the pandemic. We expect PAT growth of 61% over FY21-22E due to acquisition of MMFL and additional interest income charged during moratorium period.

Valuations have re-rated significantly due to the covid-19 pandemic. Currently the valuations remain above Avg 1 Yr Fwd P/BV.

Valuation



Source: Company updates, Geojit Research.

In today's financial landscape affected by covid-19 pandemic, the valuation of CAGL has fallen due to the lower collectability of interest income. However, we expect the business to recover post lockdown due to the company's focus on rural areas where the demand has not been impacted severely. Also, CreditAccess has a Capital adequacy ratio of around 24% which is way above the regulatory levels. Therefore, the lender can operate easily without raising capital for the next few years. Latest plan of raising capital via equity issue is expected to make CAGL prepared for coming quarters. NPAs are expected to surge in such condition but CAGL will remain one of the least affected players in the microfinance domain. Further, with the acquisition of MMFL, the synergies playing out will aid in strengthening the borrower base and diversifying the portfolio mix of the company going forward. On this front, we expect valuations to improve going forward. At CMP, the stock is trading at P/BV of 3x and 2.5x respectively for FY21E & FY22E Adj. BVPS. With demand on the strong side and cost of borrowing coming down, we expect improvement in operational efficiencies and hence value the stock at 2.9x FY22E BVPS and arrive at a target price of Rs 824 and recommend Buy rating on the stock.

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Interest Income	860	1,218	1,633	2,526	2,927
Interest Expense	354	417	580	944	1,031
Net Int. Income	**506**	**802**	**1,053**	**1,582**	**1,896**
Change	-	*58.4%*	*31.4%*	*50.2%*	*19.9%*
Non Int. Income	12	65	72	109	176
Total Income	518	867	1,126	1,691	2,072
Operating Expenses	203	294	427	594	762
Pre Prov. Profit	**315**	**573**	**699**	**1,097**	**1,309**
Change	-	*81.9%*	*22.1%*	*56.9%*	*19.4%*
Prov. & Conting.	-13.42	74.9	237	449	302
PBT	**328**	**498**	**462**	**648**	**1,007**
Change	-	*51.6%*	*-7.3%*	*40.3%*	*55.5%*
Tax	116	176	126	168	262
Tax Rate (%)	35%	35%	27%	26%	26%
Reported PAT	212	322	335	479	745
Adj*	0	0	2	17	0
Adj. PAT	**212**	**322**	**334**	**463**	**745**
Change	-	*51.4%*	*3.7%*	*38.7%*	*61.1%*
No. of shares (Cr)	12.8	14.4	14.4	14.7	14.7
EPS (Rs)	20.7	23.1	23.2	31.5	50.8
Change		*12.1%*	*0.1%*	*36.2%*	*61.1%*
DPS (Rs)	0.0	0.0	0.0	0.0	0.0

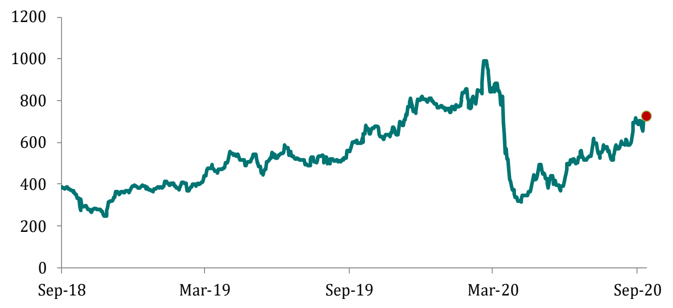
BALANCE SHEET

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash & bank balances	143	616	718	1,430	1,096
Loans & Advances	4,896	6,603	11,099	11,893	14,060
Investments	0	0	46	51	53
Gross Fixed Assets	20	34	50	69	91
Net Fixed Assets	9	19	32	30	39
CWIP	0	0	0	0	0
Intangible Assets	8	8	175	176	347
Def. Tax (Net)	30	43	57	60	60
Other Assets	28	69	463	845	923
Total Assets	**5,114**	**7,357**	**12,590**	**14,484**	**16,578**
Deposits	0	0	0	0	0
Debt Funds	3,623	4,867	9,540	10,703	11,951
Other Liabilities	46	114	295	333	422
Provisions	7	12	20	24	35
Equity Capital	128	144	144	147	147
Reserves & Surplus	1,309	2,222	2,590	3,278	4,023
Shareholder's Funds	1,437	2,365	2,734	3,424	4,169
Total Liabilities	**5,114**	**7,357**	**12,590**	**14,484**	**16,578**
BVPS (Rs)	**111.9**	**164.8**	**189.9**	**233.5**	**284.3**
Change	-	*47.2%*	*15.3%*	*23.0%*	*21.8%*
Adj. BVPS (Rs)	111.9	164.8	189.9	233.5	284.3
Change	-	*47.2%*	*15.3%*	*23.0%*	*21.8%*

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
Interest yield (%)	21.4	20.1	17.8	21.2	21.0
Cost of funds (%)	11.2	9.8	8.1	9.3	9.1
Spread(%)	10.1	10.3	9.8	11.9	11.9
NIM (%)	12.6	13.2	11.5	13.3	13.6
ROE (%)	20.7	16.9	13.1	15.0	19.6
ROA(%)	5.0	5.2	3.3	3.4	4.8
Business Growth					
Loans & Advances (%)	72.4	34.9	68.1	7.2	18.2
Borrowings (%)	34.9	34.3	96.0	12.2	11.7
Operating Ratios					
Cost to Income (%)	39.2	33.9	37.9	35.1	36.8
Capital Adequacy					
CAR (%)	29.6	35.3	23.6	24.6	27.6
Asset Quality					
GNPA (%)	0.82	0.61	1.58	2.19	1.73
NNPA (%)	0.00	0.00	0.00	0.00	0.00
Valuation					
P/E (x)	34.3	30.6	30.5	22.4	13.9
P/B (x)	6.3	4.3	3.7	3.0	2.5
Adj. P/B (x)	6.3	4.3	3.7	3.0	2.5

Recommendation Summary (Since listing)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
14 September 2020	Buy	824

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated		-	

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.
Accumulate: Partial buying or to accumulate as CMP dips in the future.
Hold: Hold the stock with the expected target mentioned in the note.
Reduce: Reduce your exposure to the stock due to limited upside.
Sell: Exit from the stock.
Not rated : The analyst has no investment opinion on the stock.

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.

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