India Ratings Assigns CreditAccess Grameen’s Additional Bank Loans ‘IND AA-’/Stable; Affirms NCDs and Existing Bank Loans

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

Details of Instruments

Instrument	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Long-term bank loans	-	-	-	INR15,000	IND AA-/Stable	Assigned
Long-term bank loans	-	-	-	INR60,000	IND AA- /Stable	Affirmed
Principal protected market-linked debentures*	-	-	-	INR600	IND PP-MLD AA-/Stable	Affirmed
Non-convertible debentures*	-	-	-	INR15,200	IND AA-/Stable	Affirmed

*Details in annexure

The rating of the market-linked debentures is an ordinal assessment of the underlying credit risk of the instrument and does not factor in the market risk that investors in such instruments will assume. This market risk stems from the fact that coupon payment on the instrument will be based on the performance of a reference index or equity share detailed in the information memorandum of the issue.

PP-MLD refers to full principal protection in the equity-linked notes, wherein the issuer is obligated to pay the full principal upon maturity.

Analytical Approach

Ind-Ra continues to take a standalone view of CA Grameen to arrive at the ratings.

Detailed Rationale of the Rating Action

The ratings factor in CA Grameen’s established track record in the non-banking finance company-microfinance institution (NBFC-MFI) segment, healthy operating buffers supported by improved credit costs and an adequate capitalisation profile with healthy internal accruals. However, the ratings remain constrained by geographically concentrated portfolio, largely in the southern part of India; although, has been reducing through the years with the acquisition of Madura Microfinance Limited (MML) in FY20 and expansion into newer geographies. The ratings also remain vulnerable to risks associated with the microfinance business, including its modest borrower profile. Although, this is partially offset by the recent regulatory guidelines for the microfinance segment, which enables product diversification and risk-based pricing for the industry.

List of Key Rating Drivers

Strengths
- Large rural-focused franchise with a well-established track record
- Adequate capitalisation

- Healthy operating buffers to absorb credit cost volatility

Weaknesses
- Geographically concentrated nature of operations
- Sectoral risk, given large concentration of microfinance book

Detailed Description of Key Rating Drivers

Large Rural-Focused Franchise with a Well-Established Track Record: CA Grameen has a well-established, large franchise with an operational history of over two decades. The company is the largest NBFC-MFI in India, with assets under management (AUM) of INR2,67,140 million and a borrower base of 4.9 million as of March 2024. The company has a total of eight directors on its board, comprising four independent directors and three nominee directors. CA Grameen has also created a strong second line of management (seven chief experience officers; CXOs and a managing director) and identified two levels of succession for each of these positions.

The company benefits from its business model of disbursement of unsecured microfinance loans to borrowers, on a need basis, through a rigorous credit underwriting process, deep penetration in rural geographies (84% of gross loan portfolio) and about 88% borrower retention rate. CA Grameen's diverse loan products cater to the requirements of its borrowers. Further, the revision in the regulatory guidelines for the microfinance sector (effective April 2022, wherein the share of qualifying assets has been reduced to 75% from 85% of the total assets), provides scope for further diversification in the asset profile. CA Grameen is expanding its product portfolio to offer retail loan products to its existing borrowers who have graduated to higher loan cycles and have demonstrated a strong credit worthiness. During the last two years, CA Grameen has embarked on a number of secured and unsecured products which will be scaled up in FY25-FY28. The company aims to increase the retail portfolio to about 15% of the AUM by FY28 (FY24: 3%). However, the execution risks remain as the expertise required for secured products is much different than microfinance loans, despite having the branch network in place. In addition, the strength of the entire loan cycle would be tested until the company builds adequate scale and seasoning.

Adequate Capitalisation: CA Grameen's tier I capital adequacy ratio stood at 22.2% in FY24 (FY23: 22.7%; FY22: 21.8%; FY21: 25.5%; FY20: 22.3%), with leverage (debt/equity) of 3.3x (FY23 3.2x; FY22: 3.2x). Leverage, considering the tangible equity, stood at 3.7x in FY24 (FY23: 3.6x; FY22: 3.7x). Ind-Ra expects the company to maintain a reasonable ability to raise capital from the equity markets. The agency expects the company to continue to operate at a moderate leverage over the medium term to provide a cushion against the idiosyncratic and systemic risks that are an inherent part of the unsecured microfinance segment. The management plans to cap the leverage at 4.0x on an ongoing basis.

Healthy Operating Buffers to Absorb Credit Cost Volatility: CA Grameen's gross stage 3 assets ratio (60-day non-performing asset recognition policy for group loans and 90-day recognition policy for retail finance) stood at 1.2% at FYE24 (FYE23: 1.2%; FY22: 3.7%; FY21: 4.4%; FY20: 1.5%), while the net stage 3 ratio stood at 0.4% (0.3%; 1.3%; 1.4%; 0.4%). CA Grameen has one of the lowest operating cost to average loans (on-balance sheet loans, net of provisions) ratios (FY24: 4.7%; FY23: 4.9%; FY22: 5.2%; FY21: 5.1%; FY20: 4.8%) in the industry. Also, its pre-provision operating profit margins as a percentage of average loans (FY24: 10.8%; FY23: 8.9%; FY22: 8.1%; FY21: 8.3%; FY20: 7.9%) are among the highest in the industry on the back of vintage, scale and higher-than-peer's share of three-year loans, which provides more than adequate cushion to absorb incremental credit costs. Ind-Ra also believes that these buffers are adequate to withstand the peak credit costs of 5%-10%, which is the overall industry experience through credit events.

Concentrated Nature of Operations: While concentration in Karnataka (31.8% as of March 2024) has reduced, it is still higher as compared to its peers. This is of significance, given the idiosyncratic and systemic risks that the sector faces, and the importance of concentration in Ind-Ra's stress tests. CA Grameen has a significant rural presence, with about 84% of the company's borrowers based in rural areas. Furthermore, the acquisition of MML has helped the company to reduce its geographic concentration in Karnataka to 31.8% as of March 2024 (March 2021: 44.8%). Notably, at a district-level, the concentration has reduced with the share of the top 10 districts in terms of AUM declining to 17.1% at FYE24 (FYE21: 27.2%). As of March 2024, about 99% of the 383 operational districts had a per-district level exposure of less than 2% of the loan portfolio with no single district accounting for more than 3.0% of the portfolio. Moreover, with implementation of risk-based pricing strategy, Ind-Ra expects the geographical and product diversification to gain pace.

Sectoral Risk Given Large Concentration of Microfinance Book: The share of unsecured microfinance portfolio stood at about 97% of CA Grameen's overall loan book as of March 2024. The microfinance segment as such is vulnerable to socio-political, climatic risks as well as operational risks associated with marginal borrower profile, higher borrower attrition, overleveraging, multiple lending, among others. Geographical diversification will act as a mitigating factor for the socio-political risk to some extent, while improved underwriting capabilities, along with a strong collection mechanism and higher employee retention will be key to manage the strong growth in the sector.

Liquidity

Adequate: CA Grameen has been diversifying its liability profile. The share of longer tenor borrowings (greater than two years) improved to 74.3% in FY24 (FY23: 66.8%), leading to an overall improvement in its asset-liability profile. Consequently, the average maturity of the liabilities increased to 24.9 months during 4QFY24 from 22.5 months during 4QFY23. The company has debt repayments obligations of INR58,842 million between April 2024 and September 2024, which will be sufficiently covered by the available liquidity, including collections. Furthermore, the company had sanctioned but undrawn bank and securitisation lines of about INR35,300 million as of March 2024.

Banks accounted for majority of the funding FY24: 57.2%; FY23: 60.4%) with a well-diversified lender base of 44 commercial banks, three financial institutions, 15 foreign institutional investors and six NBFCs. As per the company's policy, the share of funding availed through securitisation route shall not exceed 10% of its outstanding borrowings at any point. The marginal cost of borrowings, although increased due to the increase in policy rates and increasing share of longer-tenor liabilities, remained competitive at 9.3% in 4QFY24 (4QFY23: 9.4%; 4QFY22: 8.4%) as reported by the company. Ind-Ra does not see any major challenge for the company to raise funds incrementally at competitive rates.

Rating Sensitivities

Positive: Material product diversification with demonstrated performance, an appreciable reduction in the geographic concentration while maintaining strong capital buffers, stable asset quality and liquidity buffers in line with the company's plans on a sustained basis, could lead to a positive rating action.

Negative: Material deterioration in the asset quality and/or liquidity position, funding challenges and pressure on the profitability due to the increased credit cost leading to a loss on annual basis and/or the leverage exceeding 4.0x on a sustained basis, could result in a negative rating action. If, in the agency opinion, the franchise of CA Grameen weakens, it could also lead to a negative rating action.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on CA Grameen, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

About the Company

CA Grameen commenced operations in May 1999 as a project under the T. Muniswamappa Trust, a registered non-governmental organisation in Bengaluru. Subsequently, in 2007, the microfinance operations were transferred into an NBFC. CA Grameen offers collateral-free micro-loans to women from low-income households under the joint liability group model. It also offers retail finance products to support the evolving needs of its existing customers. The gross loan portfolio outstanding per borrower stood at INR53,321 as of March 2024. The promoter group, CreditAccess India N.V., held a 66.58% stake in the company as of March 2024.

FINANCIAL SUMMARY

Particulars (INR million)	FY24	FY23
Total tangible assets*	282,168	212,710
Total tangible equity*	59,408	45,199
Net profit	14,459	8,261
Return on average assets (%)	5.8	4.3
Equity/assets (%)	21.1	21.2
Total capital ratio (%)	23.1	23.6
Source: CA Grameen; Ind-Ra *Total assets and equity adjusted for deferred tax assets, good-will and intangibles Note: All ratios in the rating rationale are as per Ind-Ra methodology and can vary from those reported by the company.		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Rating Watch/Outlook							
	Rating Type	Rated Limits (million)	Rating	10 October 2023	24 April 2023	8 March 2023	15 November 2022	20 September 2022	4 August 2022	28 June 2022	10 January 2022
Long-term bank loans	Long-term	INR75,000	IND AA-/ Stable	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND A+/Stable
Non-convertible debentures	Long-term	INR15,200	IND AA-/ Stable	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND A+/Stable
Principal protected market-linked debentures	Long-term	INR600	IND PP-MLD AA-/Stable	IND PP-MLD AA-/Stable	IND PP-MLD AA-/Stable	IND PP-MLD AA-/Stable	IND PP-MLD AA-emr/Stable	IND PP-MLD AA-emr/Stable	-	-	-

Bank wise Facilities Details

Click here to see the details

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Bank loans	Low
Non-convertible debentures	Low
Principal protected market-linked debentures	High*

*Instrument characterised by underlying market risk

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

Annexure

Instrument Type	ISIN	Date of Issuance	Coupon (%)	Maturity Date	Amount (million)	Rating/Outlook
Non-convertible debentures	INE741K07462	22 November 2022	9.45	22 November 2024	INR1,853.1	IND AA-/Stable
Non-convertible debentures	INE741K07454	22 November 2022	9.83	22 November 2024	INR250.6	IND AA-/Stable
Non-convertible debentures	INE741K07470	22 November 2022	9.6	22 November 2025	INR2,124.9	IND AA-/Stable
Non-convertible debentures	INE741K07488	22 November 2022	10.02	22 November 2025	INR133.9	IND AA-/Stable
Non-convertible debentures	INE741K07496	22 November 2022	10.00	22 November 2027	INR555.0	IND AA-/Stable
Non-convertible debentures	INE741K07504	22 November 2022	10.46	22 November 2027	INR82.4	IND AA-/Stable
Non-convertible debentures	INE741K07546	7 September 2023	10.13	7 September 2028	INR178	IND AA-/Stable

Instrument Type	ISIN	Date of Issuance	Coupon (%)	Maturity Date	Amount (million)	Rating/Outlook
Non-convertible debentures	INE741K07579	7 September 2023	10.13	7 September 2028	INR2532.3	INDAA-/Stable
Non-convertible debentures	INE741K07553	7 September 2023	9.81	7 November 2027	INR17.7	INDAA-/Stable
Non-convertible debentures	INE741K07587	7 September 2023	9.81	7 November 2027	INR53.5	INDAA-/Stable
Non-convertible debentures	INE741K07538	7 September 2023	9.81	7 June 2026	INR177.7	INDAA-/Stable
Non-convertible debentures	INE741K07595	7 September 2023	9.64	7 June 2026	INR3,394.8	INDAA-/Stable
Non-convertible debentures	INE741K07561	7 September 2023	9.48	7 September 2025	INR316.2	INDAA-/Stable
Non-convertible debentures	INE741K07520	7 September 2023	9.48	7 September 2025	INR3,225.7	INDAA-/Stable
				Limit unutilised	INR304.2	
				Total	**INR15,200**	
Instrument Type	**ISIN**	**Date of Allotment**	**Coupon (%)**	**Maturity Date**	**Amount (million)**	**Rating/Outlook**
Principal protected market-linked debentures	INE741K07447	27 September 2022	8.45	27 December 2024	INR600	IND PP-MLD AA-/Stable
				Limit unutilised	-	
				Total	INR600	

Source: Company

APPLICABLE CRITERIA

Non-Bank Finance Companies Criteria

Evaluating Corporate Governance

The Rating Process

Financial Institutions Rating Criteria

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