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CREDITACCESS GRAMEEN LIMITED

August 07, 2018

GrameenKoota financial services

SMC Ranking

★ ½ ☆ ☆ ☆ (1.5/5)

Issue Highlights

Industry	NBFC
Total Issue (Shares) - Offer for sale	11,876,485
Total Issue (Shares) - Fresh Issue	14,928,910
Net Offer to the Public	**26,805,395**
Issue Size (Rs. Cr.)	1120-1132
Price Band (Rs.)	418-422
Offer Date	8-Aug-18
Close Date	10-Aug-18
Face Value	Rs.10
Lot Size	35 Shares

Issue Composition

	In shares
Total Issue for Sale	26,805,395
QIB	13,402,697
NIB	4,020,809
Retail	9,381,888

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	98.88%	80.30%
QIB	0.00%	9.35%
NIB	1.12%	3.81%
Retail	0.00%	6.54%
Total	**100.00%**	**100.00%**

*calculated on the upper price band

Objects of the Issue

- The Offer comprises of the Fresh Issue and the Offer for Sale.
- The Company will not receive any proceeds from the Offer for Sale.
- The net Proceeds from the Fresh Issue will be utilized towards augmenting the capital base to meet future capital requirements of the company which are expected to arise out of growth in the Company's assets, primarily the Company's loans and advances and other investments

Book Running Lead Manager

- ICICI Securities Limited
- Credit Suisse Securities (India) Private Limited
- IIFL Holdings Limited
- Kotak Mahindra Capital Company Limited

Name of the registrar Karvy Computershare Pvt Ltd

About the Company

CreditAccess Grameen Ltd. (CAGL) is a leading Indian micro-finance institution headquartered in Bangalore, focused on providing micro-loans to women customers predominantly in Rural Areas in India. According to CRISIL Research, CAGL is the third largest NBFC-MFI in India in terms of gross loan portfolio as of March 31, 2017. Company's wide range of lending products addresses the critical needs of its Customers throughout their life cycle and includes income generation, family welfare, home improvement and emergency loans. It focuses predominantly on Customers in Rural Areas in India, who largely lack access to the formal banking sector and present a latent opportunity for offering micro-loans. Company's focus customer segment is women having an annual household income of Rs. 160,000 or less in Urban Areas and Rs. 100,000 or less in Rural Areas. It provides loans primarily under the joint liability group ("JLG") model.

Strength

Customer-centric business model resulting in high customer retention: The company primary focuses to provide income generation loans to Customers, which comprised 87.02% of its total JLG loan portfolio, as of March 31, 2018. As of March 31, 2018, the company has served over 1.85 million Active Customers out of a total Customer base of 2.19 million. It believes that its customer-centric business model allows it to retain a high proportion of its existing customers and to attract new customers. For the six months ended September 30, 2017, it had an Active Customer Retention Rate of 90% (annualised), as compared with the median Active Customer Retention Rate of 15 leading micro-finance players which stood at 78% as of September 30, 2017. Its Active Customer Retention Rate for the year ended March 31, 2018 was 84%.

Deep penetration in Rural Areas characterized by low competition and built through contiguous district-based expansion: As of March 31, 2018, it has covered 132 districts in the eight states of Karnataka, Maharashtra, Tamil Nadu, Chhattisgarh, Madhya Pradesh, Kerala, Odisha, Goa, and one union territory of Puducherry in India through 516 branches and 4,544 loan officers. 422 out of its 516 branches are categorized as rural branches as they cater to Customers in Rural Areas. Its operations are well-diversified at the district level, with no single district contributing more than 5% to its Gross AUM (apart from one which contributed less than 6% to its Gross AUM), as of March 31, 2018. Further, out of a total of 132 districts where the company had branches as of March 31, 2018, more than 75% of each of these districts individually represents less than 1% of its Gross AUM.

Robust customer selection and risk management policies resulting in healthy asset quality: The Company follows robust customer selection and risk management policies, which have resulted in healthy asset quality and lower credit costs. The company believes that its systematic geography and customer selection methodologies have resulted in healthy asset quality. Its effective credit risk management is reflected in its portfolio quality indicators such as robust repayment rates, stable PAR and low rates of GNPA and NNPA. The company has actively managed its portfolio over the past four Financial Years, which has ensured that no single district (apart from one) contributes more than 5% to its Gross AUM, as of March 31, 2018

Strong track record of financial performance and operating efficiency: The Company has maintained a strong track record of financial performance and operating efficiency over the years through high rates of customer retention, geographical expansion, improved staff productivity, enhancement of individual loan portfolio, lower credit cost and growth in customer base led by branch expansion. The Company's AUM has increased by 57 per cent annually to Rs 4,975 crore between FY13 and FY18. The return on assets (RoA) improved to 3.1 per cent from 1.8 per cent and net interest margin expanded to 12.7 per

cent from 9.9 per cent during the period. After being negligible for the previous five years, the gross non-performing asset (GNPA) ratio increased to 2 per cent in FY18 due to the cash crunch after the demonetisation in November 2016. The net NPA has been zero in each of the past six years due to full provisioning for bad loans. The company's net profit has increased by 66 per cent annually between FY14 and FY18 to Rs 124.6 crore.

Diversified sources of borrowings and effective asset-liability management: As an NBFC-MFI, it has access to diverse sources of liquidity, such as term loans from banks, financial institutions and non-banking financial companies, proceeds from loan assets assigned and securitized, cash credit, subordinated debt and proceeds from the issuance of NCDs to meet its funding requirements. This enables the company to optimize its cost of borrowings, funding and liquidity requirements, capital management and asset liability management. As of March 31, 2018, it had total borrowings (current and non-current) aggregating to Rs. 36,02.87 cr, comprising of noncurrent long-term borrowings amounting to Rs. 1480 cr, nil short-term borrowings and current maturities of long-term borrowings (including non-convertible debentures) amounting to Rs. 2122.85 cr. The company also relies on proceeds from loan assets assigned or securitized to scheduled commercial banks.

Strategy

Continued focus on the customers from Rural Areas: As of March 31, 2016, March 31, 2017 and March 31, 2018, the percentage of its Customers located in Rural Areas was 73%, 77% and 81% respectively. It believes that it will be able to strengthen its position by tapping into this underserved market and are best placed to capitalize on its strategy of having a deep penetration in the Indian rural markets. Further, its products are built on a deep understanding of the life cycle requirements of its Customers from Rural Areas, which the company will help in the expansion of its rural customer base.

Expansion of branch network: As of March 31, 2018, the company operates in 132 districts located in the eight states of Karnataka, Maharashtra, Tamil Nadu, Chhattisgarh, Madhya Pradesh, Odisha, Kerala, Goa, and one union territory of Puducherry through 516 branches and 4,544 loan officers. The company intends to continue its strategy of contiguous expansion which will expand its district coverage in these states and also potentially into neighboring states. The company believes that its expansion strategy has resulted in mitigation of concentration risk and will continue to lead to mitigation of this risk going forward. Out of a total of 132 districts where the company had branches as of March 31, 2018, more than 75% of each of these districts individually represents less than 1% of its Gross AUM.

Leverage existing capabilities and strengths to diversify product and service offerings: The Company is an NBFC-MFI and intends to continue focusing on its operations in this space with its current business model, which comprises extending loans to customers primarily in Rural Areas. To this end, the company intends to capitalize on its current strengths including its geographical reach, customer base, robust risk management policies, strong financial track record and extensive domain expertise to diversify its product and service offerings.

Focus on optimizing operating costs and improving operational efficiencies: It's operating expenses as a percentage of its Average Gross AUM has been consistently declining over the past few years, and the Company continues to identify and implement measures that the company believe will enable it to sustain and further lower its operating expenses. The company continues to invest in its technology platform and technology-enabled operating procedures to increase operational and management efficiencies and ensure customer credit quality. The company intends to implement mobile based applications to make the loan application process convenient to its Customers and streamline credit approval, administration and monitoring processes. The company believes that implementing robust technology infrastructure will enable it to respond swiftly to market opportunities and challenges, improve the quality of services, scale-up its risk management capabilities, optimize its operating costs and improve its operational efficiency.

Risk factor

Operations are concentrated in Karnataka and Maharashtra: The operations of the company are concentrated in Karnataka and Maharashtra. Any adverse developments in these states may have an adverse effect on its business, results of operations, financial condition and cash flows.

Risk because of unsecured lending: Microfinance loans are unsecured and are susceptible to various operational and credit risks which may result in increased levels of NPAs, thereby adversely affecting its business, results of operation and financial condition.

Business is particularly vulnerable to interest rate risk: The business is particularly vulnerable to interest rate risk, and volatility in interest rates could have a material adverse effect on its net interest income, net interest margin and its financial performance.

Depend on the accuracy and completeness of information about customers and counterparties: The Company depends on the accuracy and completeness of information about customers and counterparties for its credit assessment and risk management. Any misrepresentation, errors in or incompleteness of such information could adversely affect its business and financial performance

Depend on its brand recognition: It depends on its brand recognition, and failure to maintain and enhance awareness of its brand would adversely affect its ability to retain and expand its customer base.

Industry Outlook

As of March 31, 2016, there were almost 640,000 villages in rural India inhabited by about 850 million consumers who make up 65-70% of the total population and contribute to nearly half of the country's gross domestic product (GDP). Despite rural India's large contribution towards the country's GDP, it accounts for only about 10% of the country's total credit outstanding in comparison to the 90% for urban India as of March 31, 2016. The divergence between rural India's contributions to the country's GDP and its access to banking credit is indicative of the extremely low financial inclusion in rural India. The Reserve Bank of India ("RBI") and the government of India have taken a number of measures to improve access by unbanked areas to India's formal banking system over the past five to seven years. Microfinance institutions (MFIs) have a significant role to play in furthering financial inclusion. Eight out of the ten players awarded small finance bank (SFB) licences were MFIs prior to being granted licences. There are more than 160 MFIs spanning all legal forms – societies, trusts, Section 25 companies, non-banking finance companies- MFIs (NBFC-MFIs) and co-operatives as of September 2017. The business of NBFC-MFIs (including SFBs) has grown in recent years; their gross loan portfolio grew at a 5 year CAGR of 42% to ₹ 684 billion as of March 2017. Going forward, NBFC-MFIs have growth opportunities by capturing market share from unorganised financiers and getting newer customers into their fold, increasing penetration with existing customers and entering new geographies.

Peer comparison

Company name	Total Income	PAT	Mcap	EPS	P/E	P/BV	Face Value	Price	BV
Satin Creditcare	1030.9	-2.69	1734.38	0.00	0.00	1.60	10.00	354.65	221.16
Bharat Financial	2155.36	589.4	17113.11	45.68	26.84	5.71	10.00	1226.15	214.87
AU Small Finance	1767.19	292.04	19058.14	11.79	55.71	8.33	10.00	657.10	78.92
Equitas Holdings	1786.01	31.35	4984.56	0.92	158.79	2.19	10.00	146.20	66.78
Ujjivan Fin.Ser.	1443.36	7.28	4678.36	0.51	0.00	2.66	10.00	386.70	145.60
Credit Access Grameen Ltd	865.55	124.64	6049.63	8.69	48.54	2.94	10.00	422.00	143.55

Valuation

Considering the P/E valuation on the upper end of the price band of Rs. 422, the stock is priced at pre issue P/E of 43.48x on its FY18 EPS of Rs. 9.71. Post issue, the stock is priced at a P/E of 48.54x on its EPS of Rs. 8.69. Looking at the P/B ratio at Rs. 422 the stock is priced at P/B ratio of 3.80x on the pre issue book value of Rs.111.18 and on the post issue book value of Rs. 143.55 the P/B comes out to 2.94x.

On the lower end of the price band of Rs.418 the stock is priced at pre issue P/E of 43.07x on its FY18 EPS of Rs. 9.71. Post issue, the stock is priced at a P/E of 48.08x on its EPS of Rs. 8.69. Looking at the P/B ratio at Rs. 418, the stock is priced at P/B ratio of 3.76x on the pre issue book value of Rs. 111.18 and on the post issue book value of Rs. 143.55 , the P/B comes out to 2.91x.

Outlook

The company offers loans mainly to rural women by using the joint liability group (JLG) model of lending. The company posted revenue growth of 56% CAGR in the last 5 years. Its customer-centric business model, wide range of product offerings, as well as its well designed product delivery but Microfinance loans are unsecured and are susceptible to various operational and credit risks which may result in increased levels of NPAs, may adversely affect its business, results of operation and financial condition. Moreover, the Company's operations are concentrated in Karnataka and Maharashtra. Pricing of the issue looks at a premium in comparison to its listed peers of its size. Those who want to invest may opt the issue as long-term investment.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	August 08, 2018
Bid/Offer Closing Date	August 10, 2018
Finalisation of Basis of Allotment with the Designated Stock Exchange	August 16, 2018
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	August 20, 2018
Credit of Equity Shares to depository accounts of Allottees	August 21, 2018
Commencement of trading of the Equity Shares on the Stock Exchanges	August 23, 2018

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 31-Mar-18	Period ended 31-Mar-17	Period ended 31-Mar-16
Total Operating Income	865.55	701.75	456.95
Total expenditure	322.609	263.99	126.32
Operating Profit	**542.94**	**437.76**	**330.63**
OPM%	62.73	62.38	72.35
Other Income	9.65	7.52	9.77
PBDIT	**552.60**	**445.27**	**340.40**
Depreciation	5.17	4.43	2.606
PBIT	**547.43**	**440.84**	**337.79**
Interest	354.57	316.54	208.25
PBT	**192.86**	**124.30**	**129.54**
Tax	68.22	44.00	46.30
Profit after tax	**124.64**	**80.30**	**83.24**

Balance sheet is on next page

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Balance Sheet

Rs. in Cr.

Particulars	As on 31-Mar-18	As on 31-Mar-17	As on 31-Mar-16
Non-current Assets			
Fixed assets			
Property, plant and equipment	9.48	5.98	5.32
Intangible Assets	6.68	6.28	6.02
Capital work-in-progress	0.00	0.70	0.00
Intangible assets under development	1.06	2.33	0.00
Non-current investment	0.20	0.20	0.20
Deferred tax assets	35.58	48.49	11.03
Long-term loans and advances	1590.03	637.62	771.23
Other non-current assets	5.55	11.96	39.24
Total Non-current assets	**1648.58**	**713.56**	**833.03**
Current assets			
Cash and Bank balances	138.15	363.69	254.92
Loan and advances	3409.69	2451.45	1704.16
Other current assets	21.92	35.37	15.86
Total current assets	**3569.76**	**2850.51**	**1974.94**
Total Assets	**5218.35**	**3564.07**	**2807.98**
Non-current liabilities			
Long-term borrowings	1480.00	1175.88	1122.15
Long-term provisions	100.62	30.72	10.75
Total non-current liabilities	1580.62	1206.61	1132.90
Current liabilities			
Short-term borrowings	0.00	0.00	20.00
Other current liabilities	2204.44	1549.42	1174.46
Short-term provisions	5.40	117.25	20.74
Total current liabilities	**2209.84**	**1666.67**	**1215.20**
Total	**3790.46**	**2873.28**	**2348.10**
NET Worth	**1427.89**	**690.80**	**459**.88
Net worth represented by:			
Share capital	128.43	85.68	72.953
Reserves and surplus	1299.46	605.12	386.92
Net Worth	**1427.89**	**690.80**	**459.88**

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RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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