

Company Overview

CreditAccess Grameen Ltd (CAGL) (formerly Grameen Koota), founded in 1991 is the second largest rural focused MFI-NBFC and the third largest MFI-NBFC in India. The company's promoter CreditAccess Asia N.V operates in 4 countries across Asia through its subsidiaries, specializing in MSE financing. The company focuses on providing micro loans to women in rural areas and has a customer base of 2.2 Mn with gross loan portfolio outstanding of INR 49.75 Bn as of FY18. CAGL operates across eight states spanning Karnataka, Maharashtra, Tamil Nadu, Madhya Pradesh, Goa, Kerala & Odisha. The company has a presence across 132 districts in these states served through 516 branches. Maharashtra and Karnataka comprise ~86% of the total loan book for the company.

Objects of the issue

To achieve the benefits of listing equity shares on the stock exchanges comprising of sale of up to 11.9 Mn equity shares by the selling shareholders and fresh issue of 15.07 Mn shares

Investment Rationale**Customer centric approach to help sustain high levels of customer retention**

The company's customer centric business model has allowed high retention of existing customers and also helped in attracting new customers. The active customer retention rate for FY18 was 84% compared to the industry median rate of 78% amongst micro finance lenders. CAGL has a financial product portfolio capable of covering the entire customer life cycle which has been developed through a deep level of understanding of the customers needs. The differentiated delivery of the products further offers flexibility to the customers compared to the competition. Thus, these factors help in ensuring a high level of customer retention.

Well entrenched rural presence developed through continuous expansion in adjacent districts

Grameen believes that its deep penetration in rural areas developed through continuous expansion in adjacent districts offers significant scale and diversification benefits. The strategy followed by the company comprises of ensuring deep penetration in a particular district typically within three of commencement before it methodically expands into the next(mostly adjoining) district. As of FY18 the company has a presence in 132 districts across eight states comprising Karnataka, Maharashtra, Tamil Nadu, Madhya Pradesh, Goa, Kerala & Odisha. The company operates in these states through 516 branches and ~4,500 loan officers while remaining well diversified as no single district typically contributes more than 5% to the gross AUM and more than 75% of the districts contributed less than 1% of the gross AUM.

Healthy Asset quality resulting from vigorous customer selection and risk management policies

The company follows a systematic methodology in the selection of new geographies for new branch expansion consisting of various factors such as competition, future potential etc are evaluated. For customer selection the company also uses a similar process whereby due diligence is performed encompassing three layers of checks. Alongside ,the company also follows a stringent credit risk management framework. All of these practices have collectively ensured healthy asset quality as reflected through relatively low GNPA of ~2% and nil NNPA.

Conclusion and Outlook

CreditAccess Grameen Ltd has been able to grow to grow its operations by maintaining its customer focused approach and enhancing rural penetration through systematic contiguous district expansion .The company's understanding of customers reflected through product portfolio offerings and differentiated delivery has resulted in high customer retention and healthy asset quality. However, concentration of AUM in two states, ability of the company to maintain costs as it expands in other states and an over leveraged customer base along with inherent risk in MFI does not justify the valuation of ~2.9X P/FY18 Book (post issue) and ~35x P/FY18 E .We feel that these factors coupled with relatively low ROEs make us recommend an 'AVOID' rating to the IPO.

Issue Details

Offer Period	8th - 10th Aug 2018
Price Band	Rs.418 to Rs.422
Bid Lot	35
Listing	BSE&NSE
Issue Size (no. of shares in mn)	26.80
Issue Size (Rs. in mn)	11,311
Face Value	10

Issue Structure

QIB	50%
Retail	35%
HNI	15%

	Credit Suisse Securities
BRLM	Kotak Mahindra Capital
Registrar	Karvy Com-pushare Pvt Ltd.

Particulars	Pre Issue %	Post Issue %
Promoter	98.9	80.3
Public	1.1	19.7
Total	100%	100%

(Assuming issue subscribed at higher band)

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CreditAccess Grameen Limited

Income Statement (Millions)

INR Mn	FY14	FY15	FY16	FY17	FY18
Income					
Revenue from operations	1,423.4	2,681.6	4,570	7,017	8,656
Other income	54.9	132.7	97.7	75.2	96.5
Total revenue	1,478.3	2,814.3	4,667.2	7,092.6	8,752.1
Expenses					
Employee benefits expenses	292.5	436.4	707	1,047	1,272
Finance costs	722.5	1290.5	2082.5	3165.4	3545.7
Other expenses	152.8	250.6	416	507	673
Depreciation and amortisation expenses	5.3	19.2	26.1	44.3	51.7
Provision and write-offs	57.3	68.4	140	1,086	1,281
Total expenses	1230.3	2065.1	3371.8	5849.6	6823.5
Profit before tax	248.0	749.2	1,295.4	1,243.0	1,928.6
Total tax expense	81.7	261.9	463.0	440.0	682.2
Profit for the year	166.3	487.3	832.4	803.0	1,246.4
EPS					
Basic	4.2	9.2	11.4	10.0	12.3
Diluted	4.2	9.0	11.2	9.9	12.1

Source: Company, BP Equities Research

Cash Flow Statement (Millions)

INR Mn	FY14	FY15	FY16	FY17	FY18
Cash flow from operating activities	-2709.2	-6984.2	-9310.9	-4247.9	-17391.6
Net cash flow from investing activities	30	(9)	(39)	(49)	535
Net cash (used) generated by financing activities	4897.0	5974.1	9343.6	5791.0	14835.4
Net increase/decrease in cash and cash equivalents	2,218	(1,019)	(7)	1,494	(2,021)
cash and cash equivalents at the beginning of the year	634.6	2852.4	1833.6	1826.8	3321.1
cash and cash equivalents at the end of the year	2,852	1,834	1,827	3,321	1,300

Source: Company, BP Equities Research



CreditAccess Grameen Limited

Balance Sheet (Millions)

INR Mn	FY14	FY15	FY16	FY17	FY18
Equity and liabilities					
Share capital	529.5	729.5	729.5	856.8	1,284.3
Reserves and surplus	1,543.2	3,034.4	3,869.2	6,051.2	12,994.6
Shareholders' funds	2,072.8	3,764.0	4,598.8	6,908.0	14,278.9
Long-term borrowings	3,700.2	5,849.8	11,221.5	11,758.8	14,800.0
Long-term provisions	29.0	29.8	107.5	307.2	1,006.2
Non-current Liabilities	3,729.2	5,879.6	11,329.0	12,066.1	15,806.2
Short-term borrowings	-	-	200.0	-	-
Other current liabilities	4,717.4	7,504.0	11,744.6	15,494.2	22,044.4
Short-term provisions	61.5	120.5	207.4	1,172.5	54.0
Current liabilities	4,778.9	7,624.5	12,152.0	16,666.7	22,098.4
TOTAL	10,580.8	17,268.1	28,079.8	35,640.7	52,183.5
Assets					
Property, plant and equipment	24.8	25.7	53.2	59.8	94.8
Intangible assets	1.5	11.5	60.2	62.8	66.8
Capital work-in-progress	-	-	-	7.0	-
Intangible assets under development	2.3	24.9	-	23.3	10.6
Fixed assets	28.6	62.1	113.4	152.9	172.2
Non-current investments	2.0	2.0	2.0	2.0	2.0
Deferred tax asset	32.2	59.5	110.3	484.9	355.8
Loans and advances	1,586.9	2,703.0	7,712.3	6,376.2	15,900.3
Other non-current assets	447.6	737.3	392.4	119.6	55.5
Non current Assets	2,097.3	3,563.9	8,330.3	7,135.6	16,485.8
Cash and bank balances	3,250.3	2,797.7	2,549.2	3,636.9	1,381.5
Loan and advances	5,177.2	10,827.5	17,041.6	24,514.5	34,096.9
Other current assets	56.0	78.9	158.6	353.7	219.2
Current assets	8,483.5	13,704.2	19,749.4	28,505.1	35,697.6
TOTAL	10,580.8	17,268.1	28,079.8	35,640.7	52,183.5

Source: Company, BP Equities Research

Key Risks

⇒ High AUM concentration in Karnataka and Maharashtra (~85%) poses risk due to regional slowdown in economic activity and political unrest which could impact the company's products and operations

□ Microfinance loans being unsecured face operational and credit risks which could result in increased levels of NPAs affecting the company's business

□ Availability of cost effective sources of funding and volatility in lending and borrowing rates could adversely affect operations

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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