

**CreditAccess Grameen Limited**  
**IPO Note**  
**(SUBSCRIBE FOR LONG-TERM)**

**Analyst:**

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**8 August 2018**

# IPO details

Key Data	
Issue Opens	8-Aug-18
Issue Closes	10-Aug-18
Equity Shares Offered (in mn.)	6.98
QIB	Up to 50%
NIB	Min 15%
Retail	Min 35%
Face Value (₹)	10
Price Band (₹)	418-422
Max. Issue Size (₹ mn)	2,948
Lot Size (Eq. Shares)	35 and multiple thereof

Valuation	@ 418 per share	@ 422 per share
Market Cap (₹ mn)	59,923	60,496
Net Debt (₹ mn)	13,418	13,418
Enterprise Value (₹ mn)	73,341	73,915
EV/ Sales	8.5	51.9
NIM	12.7%	12.7%
BVPS	140.5	140.5
P/E	34.5	34.8

Source: Red Herring Prospectus, Dealmoney Research

	Pre Issue		Post Issue <sup>^</sup>	
	# mn Shares	% Holding	# mn Shares	% Holding
Promoters	127.0	98.9%	115.1	80.3%
Public	1.4	1.1%	1.4	1.0%
Offer for sale			11.9	8.3%
Fresh Issue			14.9	10.4%
<b>Total</b>	<b>128.4</b>	<b>100.00%</b>	<b>143.4</b>	<b>100.0%</b>

## Object of the issue

- 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.

## Recommendation

**Unlike other microfinance players which have exposure to urban markets, our analysis reveals that Grameen Koota is a pure rural play with 82% of its branches catering to rural markets and 81% of customers in rural areas. . As rural India still recovers from the impact of demonetization, there is a strong case for further improvement in disbursements and other financial parameters.**

**On valuations front, the company's Price Band of INR418 – 422 per share and Earnings Per Share (EPS) of INR12.11 translates into Price/Earnings (P/E) ratio in the range of 34.5 – 34.8. This is less compared to its peers like Ujjivan and Equitas but in line with Bharat Financial. Therefore, we give SUBSCRIBE FOR LONG- TERM rating to this IPO.**

## One of the leading Micro- Finance in India

- ❑ Incorporated on June 12, 1991, CreditAccess Grameen Limited (“CreditAccess Grameen”) is the leading Indian micro-finance institution headquartered in Bangalore, focused on providing micro-loans to women customers predominantly in Rural Areas in India.
- ❑ The company has customer-centric business model, wide range of product offerings, as well as well-designed product delivery and collection systems. CreditAccess Grameen is the customer-centric organization and had a high Active Customer Retention Rate of 90% (annualized) for the 6 months ended September 30, 2017.
- ❑ According to CRISIL Research, it stands third largest NBFC-MFI in India in terms of gross loan portfolio as of March 31, 2017. CreditAccess Grameen was the 3rd fastest growing NBFC-MFI in terms of FY 2014 to FY 2017 CAGR for GLP and the fastest growing amongst NBFC-MFIs with a GLP of over Rs.30 billion.
- ❑ Among the NBFC-MFIs, CreditAccess Grameen was the 3rd largest company based on Gross Loan Portfolio (“GLP”) as of March 31, 2017 and the 2nd largest company based on the loan amount disbursement in fiscal year 2016-17.
- ❑ CreditAccess Grameen follows a strategy of district based expansion across regions and, as of March 31, 2018, they cover 132 districts in the 8 states of Karnataka, Maharashtra, Tamil Nadu, Chhattisgarh, Madhya Pradesh, Odisha, Kerala and Goa and 1 union territory (Puducherry) in India through 516 branches and 4,544 loan officers.
- ❑ The company is promoted by CreditAccess Asia N.V. (“CAA”), a multinational company specializing in MSE financing (micro and small enterprise financing), which is backed by institutional investors and has micro-lending experience through its subsidiaries in 4 countries in Asia.
- ❑ The company’s Gross AUM was Rs.49,746.61 million as of March 31, 2018 and Gross AUM grew at a CAGR of 57.45% from Rs.8,095.22 million as of March 31, 2014 to Rs.49,746.61 million as of March 31, 2018. It’s Disbursements across the financing products for the FY16, FY17 and FY18 were Rs.33,488.46 million, Rs.34,026.29 million and Rs.60,817.22 million, respectively. Net interest income (representing revenue from operations as reduced by finance costs) for the FY16, FY17 and FY18 was Rs.1,391.06 million, Rs.2,487.04 million, Rs.3,852.04 million and Rs.5,109.85 million, respectively. Net interest margin, which is net interest income divided by Annual Average Gross AUM, for the FY16, FY17 and FY18 was 12.48%, 13.72% and 12.70%, respectively. Net worth as of March 31, 2018 was Rs. 14,270.83 million. The company’s profit after tax for the FY16, FY17 and FY18 was Rs.832.41 million, Rs.802.98 million and Rs.1,246.41 million, respectively.

Source: Red Herring Prospectus, Dealmoney research

# Strengths

- ❑ **Customer-centric business model resulting in high customer retention:** As of March 31, 2018, they cater to 1.85 million Active Customers out of a total Customer base of 2.19 million. Their customer-centric business model allows them to retain a high proportion of their existing customers and to attract new customers. The Active Customer Retention Rate for the year ended March 31, 2018 was 84%, as compared with the median Active Customer Retention Rate of 15 leading micro-finance players which stood at 78% as of September 30, 2017 (Source: CRISIL Research).
- ❑ **Robust customer selection and risk management policies resulting in healthy asset quality:** CreditAccess Grameen follows robust customer selection and risk management policies, which have resulted in healthy asset quality and lower credit costs. They follow a systematic methodology in the selection of new geographies where they open branches, which takes into account factors such as the historic Portfolio at Risk (“PAR”) % of the proposed district, competition in the new geographies, potential for microlending and socio-economic risk evaluation (for e.g., the risk of communal riots or natural disasters).
- ❑ **Deep penetration in Rural Areas characterized by low competition and built through contiguous district-based expansion:** CreditAccess Grameen carries out their contiguous expansion strategy methodically whereby they aim to expand to the next (typically adjoining) district and ensure deep penetration in a particular district within 3 years of commencement of operations in the district. As of March 31, 2018, CreditAccess Grameen covers 132 districts in the 8 states of Karnataka, Maharashtra, Tamil Nadu, Chhattisgarh, Madhya Pradesh, Kerala, Odisha, Goa, and 1 union territory of Puducherry in India through 516 branches and 4,544 loan officers. 422 out of their 516 branches are categorized as rural branches as they cater to Customers in Rural Areas. Their operations are well-diversified at the district level, with no single district contributing more than 5% to their Gross AUM (apart from one which contributed less than 6% to the Gross AUM), as of March 31, 2018. Further, out of a total of 132 districts where they had branches as of March 31, 2018, more than 75% of each of these districts individually represents less than 1% of their Gross AUM.
- ❑ **Strong track record of financial performance and operating efficiency:** Company’s deep penetration in India’s rural markets through their contiguous district-based expansion strategy has helped them achieve one of the lowest operating expense ratios, contributing to economies of scale. According to CRISIL Research, CreditAccess Grameen had the lowest operating expense ratio amongst the top-8 NBFC-MFIs and SFBs for the year ended March 31, 2017, which demonstrates their operating efficiency.

Source: Red Herring Prospectus, Dealmoney research

## Future road ahead

- ❑ **Expansion of branch network:** As of March 31, 2018, CreditAccess Grameen operates in 132 districts located in the 8 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. They intend to continue their strategy of contiguous expansion which will expand their district coverage in these states and also potentially into neighboring states.
- ❑ **Leverage existing capabilities and strengths to diversify product and service offerings:** CreditAccess Grameen is the NBFC-MFI and intends to continue focusing on their operations in this space with their current business model which comprises extending loans to customers primarily in Rural Areas. To this end, they intend to capitalize on their current strengths including their geographical reach, customer base, robust risk management policies, strong financial track record and extensive domain expertise to diversify their product and service offerings.
- ❑ **Focus on optimizing operating costs and improving operational efficiencies:** Controlling the operating expenses is critical in determining the ability to offer loan products at reasonable rates to the Customers and the profitability. According to CRISIL Research, CreditAccess Grameen had the lowest operating expense amongst the top-8 NBFC-MFIs and SFBs for the year ended March 31, 2017. Their operating expenses as a percentage of their Average Gross AUM has been consistently declining over the past few years, and the company continue to identify and implement measures that will enable them to sustain and further lower their operating expenses. The company has recently implemented their new Core Banking System which has facilitated the smooth and swift flow of information and data enabling them to control their cost of operations and provide improved services to their customers.
- ❑ **Continued focus on the customers from Rural Areas:** According to CRISIL Research, MFIs are increasingly becoming urban focused and have increased their urban footprint. However, CreditAccess Grameen has maintained their focus on growing their rural customer base and intend to continue to do so going forward. According to CRISIL Research, a large segment of India's rural and semi-urban population is currently unserved and underserved by formal financial institutions, which provides the company with the scope to expand in rural markets characterized by low competition. As of March 31, 2016, March 31, 2017 and March 31, 2018, the percentage of the customers located in Rural Areas was 73%, 77% and 81% respectively.

Source: Red Herring Prospectus, Dealmoney research

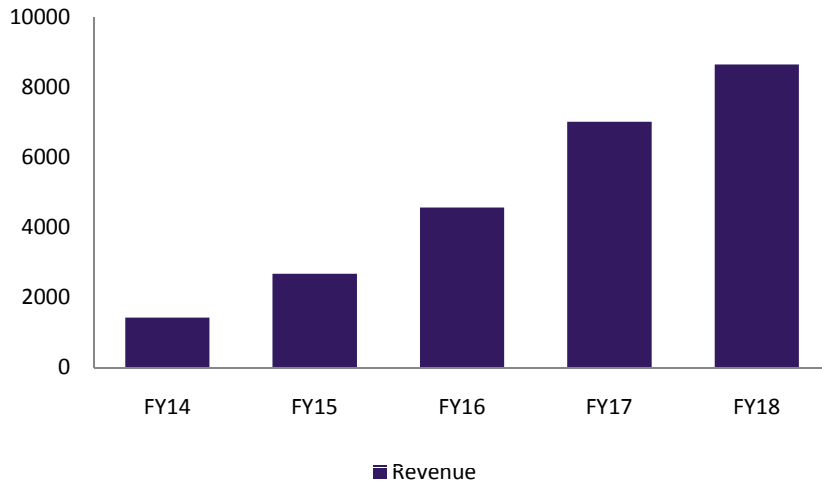
## Peer Comparison

Name of the company	P/E	P/B	Net Profit	EPS	Net worth (in ₹ million)	Return on net worth (%)
<b>Creditaccess Grameen Ltd.</b>	<b>34.8</b>	<b>3.0</b>	<b>1,246</b>	<b>12.11</b>	<b>1,427</b>	<b>8.73%</b>
Bharat Financial Inclusion Ltd.	35.82	5.47	4,555	32.89	29,987	15.19%
Satin Creditcare Network Ltd.	-213.18	1.41	(37)	-1.51	10,887	-0.34%
Au Small Finance Bank Ltd.	63.06	8.1	2,920	10.26	22,812	12.80%
Ujjivan Financial Services Ltd.	627.87	2.63	73	0.61	17,613	0.41%
Equitas Holdings Ltd.	153.15	2.11	314	0.92	22,763	1.38%
Shriram Transport Finance Company Ltd.	17.69	2.19	15,545	68.61	125,880	12.35%
Mahindra & Mahindra Financial Services Ltd.	27.16	2.98	10,514	17.62	99,152	10.60%

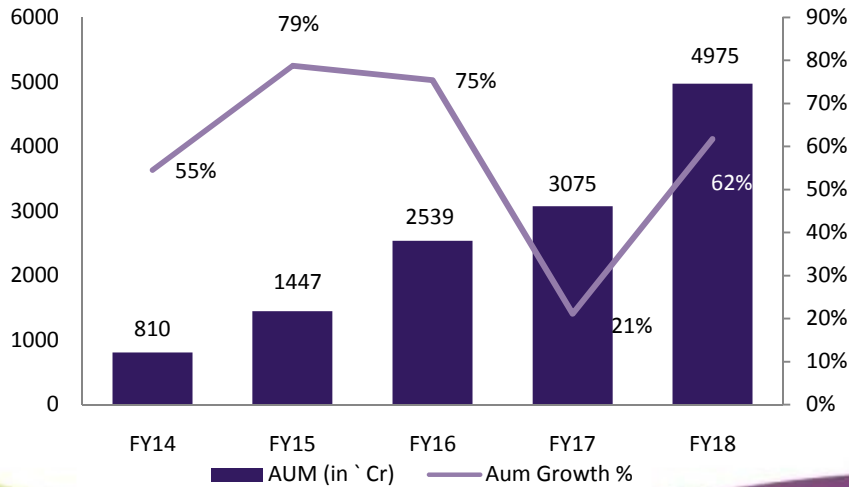
Source: ACE Equity, Dealmoney Research

# Financial Performance

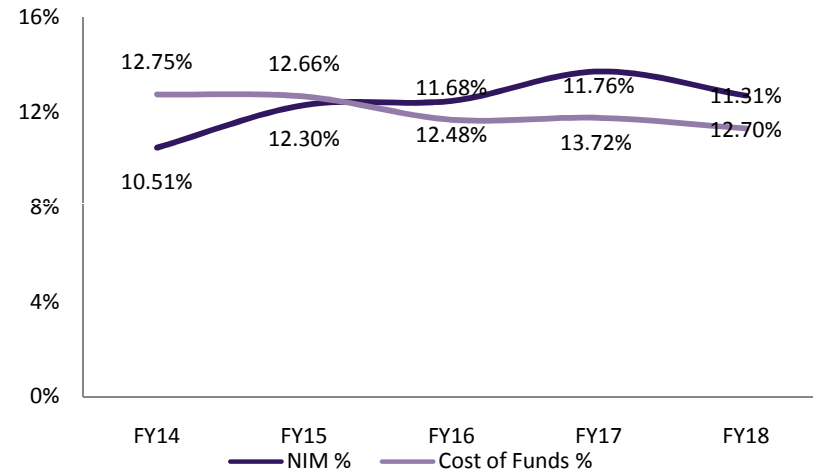
### Revenue Growth (in ₹ mn)



### AUM growth



### NIM and Cost of Fund



Key Financial and Operational metrics	2018	2017	2016	2015	2014
Gross AUM (Cr.)	4,974.66	3,075.44	2,538.77	1,447.06	809.52
Gross AUM Growth (%)	61.75%	21.14%	75.44%	78.76%	54.52%
Disbursements (Cr.)	-6081.72	-3402.63	-3348.85	-1893.91	-1028.09
Disbursement Growth (%)	78.74%	1.61%	76.82%	84.22%	69.54%
Customers (Nos.)	2,187,174	1,653,611	1,386,588	923,018	568,958
Active Customers (Nos.)	1,851,324	1,450,298	1,196,389	844,585	504,688
Number of Total Active Loan Accounts (Nos.)	3,190,543	2,863,379	2,669,226	1,877,069	1,036,982
Revenue from operations (Cr.)	865.55	701.75	456.95	268.16	142.34
Interest Expense and Other Borrowing Costs (Cr.)	354.57	316.54	208.25	129.05	72.25
Net Interest Income (Cr.)	510.99	385.2	248.7	139.11	70.08
Annual Average Gross AUM (Cr.)	4,025.05	2,807.11	1,992.92	1,128.29	666.71
Net Interest Margin = Net Interest Income / Annual Average Gross AUM (%)	12.70%	13.72%	12.48%	12.30%	10.51%
Operating Expense (Cr)	199.66	159.82	114.91	70.62	45.05
Operating Expense / Annual Average Gross AUM	4.96%	5.69%	5.77%	6.26%	6.76%
Credit Cost (Cr.)	128.11	108.6	14.02	6.84	5.73
Credit Cost / Annual Average Gross AUM (%)	3.18%	3.87%	0.70%	0.61%	0.86%
Profit after tax (Cr.)	124.64	80.3	83.24	48.73	16.63
Gross NPA (Cr.)	98.09	2.58	1.98	0.49	0.08
Gross NPA Ratio (%)	1.97%	0.08%	0.08%	0.04%	0.01%
Net NPA (Cr.)	-	-	-	-	-
Net NPA Ratio	-	-	-	-	-
Net Worth (Cr.)	1,427.08	690.41	459.24	375.5	206.14



# Consolidated Summary Financials

## Income Statement

₹ mn	FY14	FY15	FY16	FY17	FY18
Total Income	1,423	2,682	4,570	7,017	8,656
Operating Expense	502	755	1,263	2,640	3,226
<b>EBIDTA</b>	<b>921</b>	<b>1,926</b>	<b>3,306</b>	<b>4,378</b>	<b>5,429</b>
Depreciation	5	19	26	44	52
Other Income	55	133	98	75	97
Finance Costs	723	1,291	2,082	3,165	3,546
<b>PBT</b>	<b>248</b>	<b>749</b>	<b>1,295</b>	<b>1,243</b>	<b>1,929</b>
Tax	82	262	463	440	682
<b>PAT(Before Minority Interest)</b>	<b>166</b>	<b>487</b>	<b>832</b>	<b>803</b>	<b>1,246</b>
Less : Minority Interest	-	-	-	-	-
<b>Net Profit</b>	<b>166</b>	<b>487</b>	<b>832</b>	<b>803</b>	<b>1,246</b>

₹ mn	FY14	FY15	FY16	FY17	FY18
NIM	6.9%	9.4%	10.4%	12.3%	11.0%
EBIDTA Margin	62.3%	68.4%	70.8%	61.7%	62.0%
Net Margin	11.2%	17.3%	17.8%	11.3%	14.2%
ROE	8.0%	12.9%	18.1%	11.6%	8.7%
GNPA%	0.01%	0.04%	0.08%	0.08%	1.97%
NNPA	-	-	-	-	-

## Balance Sheet

₹ mn	FY14	FY15	FY16	FY17	FY18
<b>Liabilities</b>					
Share capital	530	730	730	857	1,284
Reserves and surplus	1,543	3,034	3,869	6,051	12,995
Minority interest	-	-	-	-	-
Long-Term Borrowings	3,700	5,850	11,221	11,759	14,800
Deferred tax liabilities(Net)	-	-	-	-	-
Other Long Term Liabilities	-	-	-	-	-
Long term provisions	29	30	108	307	1,006
Short term borrowings	-	-	-	-	-
Other current liabilities	4,717	7,504	11,745	15,494	22,044
Short term provisions	62	120	207	1,173	54
<b>Total Liabilities</b>	<b>10,581</b>	<b>17,268</b>	<b>27,880</b>	<b>35,641</b>	<b>52,183</b>
<b>Assets</b>					
Net Block	25	26	53	60	95
Intangible assets	2	12	60	63	67
Capital work in progress	-	-	-	7	-
Intangible assets under development	2	25	-	23	11
Non-current investments	2	2	2	2	2
Deferred tax asset	32	59	110	485	356
Loans and advances	1,587	2,703	7,712	6,376	15,900
Other non-current assets	448	737	392	120	56
Cash and cash equi.	3,250	2,798	2,549	3,637	1,382
Short Term Loans & Advances	5,177	10,827	17,042	24,515	34,097
Other Current Assets	56	79	159	354	219
<b>Total Assets</b>	<b>10,581</b>	<b>17,268</b>	<b>28,080</b>	<b>35,641</b>	<b>52,183</b>

Source: Red Herring Prospectus, Dealmoney research

# Key Risks

- ❑ The company may face credit risk due to non repayment by its customers under loan agreements.
- ❑ The company may have to borne loss due to higher interest rate as it lends to customers at fixed interest rate, any increase in interest rate can narrow the spread .
- ❑ The business is seasonal in nature. The company sees higher demand borrowings from customers during the third and fourth quarter.

Source: Red Herring Prospectus, Dealmoney research

# Dealmoney Securities Private Limited

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