IPO NOTE

Credit Access Grameen — 7th August 2018

Rating:

★ ★ ★ ☆ ☆

Issue Summary:

Price Band (Rs)	Rs.418-422 per share
Face Value (Rs)	10
Market Lot	35 shares
Opens	8th August, 2018
Closes	10th August, 2018
Issue Size (Rs)	1131 Cr
No. of shares pre-issue	12,84,27,337
No. of shares post issue	14,33,56,246
Listing	NSE & BSE

Issue Break Up:

QIB Portion	50%
NIB Portion	15%
Retail Portion	35%

Book Running Lead Managers:

- ICICI Securities Ltd
- Credit Suisse Securities
- IIFL Holdings Ltd
- Kotak Mahindra Capital Company

Registrar

- Karvy Computershare Pvt Ltd

Company & Business Profile

Credit Access Grameen is a leading Indian micro-finance institution headquartered in Bangalore with a primary focus on providing micro-loans to women customers' predominantly in rural areas of India. According to CRISIL Research, it is the third largest NBFC-MFI in India in terms of Gross loan portfolio as of Mar 17. Its 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 has followed a strategy of contiguous district-based expansion across regions. As of Mar18, it covers 132 districts in eight states (Karnataka, Maharashtra, Tamil Nadu, Chhattisgarh, Madhya Pradesh, Odisha, Kerala, and Goa) and one union territory (Puducherry) through 516 branches and 4,544 loan officers.

Its promoter is Credit Access Asia, 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 four countries in Asia.

It provides loans primarily under the Joint Liability Group (JLG) model. Its primary focus is to provide income generation loans to the customers, which comprised 87.02% of its total JLG loan portfolio, as of Mar 2018. It also provides other categories of loans such as family welfare loans, home improvement loans and emergency loans to its existing customers. Income Generation loans are offered to customers to establish a new enterprise or expand an existing business. For instance, loans may be disbursed to set up a grocery store, buy cattle, install new machinery or purchase raw materials.

In 2016, with a view of diversifying its product portfolio, it introduced individual retail finance loans for customers who had been its customers for atleast three years and fulfill certain other eligibility criteria. This loan category targets customers who are more entrepreneurial, have graduated from the JLG model and are capable of taking larger loans in their individual capacity.

Its average ticket size is Rs 19,671 and has a weekly collection model. Approximately 56.5% of its Total Active Loan Accounts as of Mar18 are collected on a weekly basis.

Source: Ace Equity, Arihant Research

Competitive Strengths:

- **Strong track record of financial performance and operating efficiency**
  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.
- **Stable management team with extensive domain experience**
  It is a professionally managed company and its senior management team has an established track record.
- **Diversified sources of borrowings and effective asset-liability management**
  It has access to diverse sources of liquidity, such as term loans, cash credit, subordinated debt and NCDs. It also has in place effective asset liability management strategies. It borrows on a relatively long-term basis while lends on a short term basis
- **Customer-centric business model resulting in higher customer retention**
  As of Mar-18, it served over 1.85m Active customers out of total customer base of 2.19m.

Business strategy:

- **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 its focus on growing its rural customer base and intends to continue to do so going forward. As of Mar16, Mar17 and Mar18, the percentage of its customers located in Rural areas were 73%, 77% and 81% respectively.
- **Expansion of branch network**
  Its contiguous 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 it has branches as of Mar-18, more than 75% of each of these districts individually represents less than 1% of its Gross AUM.
- **Focus on optimising operating costs and improving operational efficiencies**
  According to CRISIL research, it had the lowest operating expense amongst the top-eight NBFC-MFIs and SFBs for the year Mar-17. Given its high customer retention rates, the MFI expects to derive scale and cost benefits as there is no incremental sourcing cost for existing customers.

Promoter Background:

- **Udaya Kumar Hebbar** is the MD & CEO of the Company. He holds a bachelor's degree in commerce from the University of Mysore and a master's degree in commerce from Karnataka University, Dharwad. He is a certificated associate from the Indian Institute of Bankers and holds a diploma from Vanderbilt University. He has served as the head, commercial and banking operations at Barclays Bank PLC, Mumbai for three years. He also served at Corporation Bank for a period of over ten years. He was also associated with ICICI Bank for over eleven years.
- **Diwakar B.R**. is the Chief Financial Officer of the Company. He holds a bachelor's degree and masters' degree in commerce from Osmania University. He has 20 years of experience in the financial services sector. Prior to joining the Company, he worked with Small Industries Development Bank of India, as Chief Manager at ICICI Bank Limited and as Commercial Supervisor at ACCION International.

Objectives of the issue:

The Net Proceeds of the Fresh Issue are proposed to be utilized for augmenting its capital base.

Risk Factors:

- **Its operations are concentrated in Karnataka and Maharashtra and any adverse developments in these states could have an adverse effect on the business.**
  As of Mar18, it conducted its operations through 516 branches in India, of which 191 branches were located in Karnataka and 144 branches were located in Maharashtra
- **Microfinance loans are unsecured and are susceptible to various operational and credit risks which may result in increased levels of NPAs.**
  JLG customers do not provide any collateral or security for their borrowings as the RBI has mandated that loans given by NBFC-MFIs should be collateral free. There is typically limited financial information available about the focus customer segment and majority of the customers usually do not have any credit history supported by tax returns, bank statements, statements of previous loan exposures and other related documents and hence it is difficult to consistently carry out credit risk analyses on the customers.
- **Competition from banks and financial institutions may adversely affect its profitability and position in the Indian microcredit lending industry.**
  Many of the institutions with which it competes may be larger in terms of business volume, higher geographical penetration and may have better access to lower cost of funding. It may encounter greater competition as it continues to expand operations. The company considers Bharat Financial Inclusion, Janalaxmi Financial Services, Ujjivan Small Finance Bank, Satin Creditcare Network and Equitas Small Finance Bank as its key competitors.

Financial Performance:

Total Revenue grew by 48% CAGR while Net Interest Income grew by 54% CAGR. Operating expenses as a % of Annual Average Gross AUM has reduced by 130 bps from 6.3% as of FY15 to 5% as of FY18. PAT has grown by 37% CAGR from FY15-FY18. Its CRAR was 28.08%, 21.48%, 29.71% and 28.94% as of Mar 2015, Mar2016, Mar 2017 and Mar18 respectively. This is well above their regulatory requirement of 15%. Its Gross AUM was Rs 4974.7cr as of Mar2018. It grew at a CAGR of 57.45% from Rs 809.5cr as of Mar 2014 to Rs 4974.7cr as of Mar2018.

Particular in Rs (CR)	FY2015	FY2016	FY2017	FY2018
Total Revenue	268.2	457.0	701.8	865.6
Net Interest Income	139.1	248.7	385.2	510.99
Annual Average Gross AUM	1128.3	1992.9	2807.1	4025.1
Net Interest Margin	12.3%	12.5%	13.7%	12.7%
Operating Expense	70.6	114.9	159.8	199.7
Operating Expense/Annual Average Gross AUM	6.3%	5.8%	5.7%	5.0%
Credit Cost	6.84	14.02	108.6	128.12
Credit cost/ Annual Average Gross AUM	0.6%	0.7%	3.9%	3.2%
PAT	48.7	83.2	80.3	124.6
Gross NPA	0.49	1.98	2.58	98.09
Gross NPA Ratio	0.04%	0.08%	0.08%	1.97%
Net NPA	-	-	-	-
Net NPA Ratio	-	-	-	-

Peer Comparison:

Particular in Rs (CR) as of Mar-18	FaceValue	AUM	EPS (Basic)	P/E	P/B	NAV	RoNW (%)
Credit Access Grameen	10	4974.7	12.26	34.4x	3.8x	111.12	8.7%
Bharat Financial Inclusion Ltd	10	12594	32.89	36.9x	5.6x	215.24	15.2%
AU Small Finance Bank	10	16038	10.26	62.8x	8.1x	79.84	12.8%
Ujjivan Financial Services	10	7560	0.61	611.8x	2.6x	145.73	0.4%
Equitas Holdings Ltd	10	8238	0.92	153.1x	2.1x	66.87	1.4%
Shriram Transport Finance	10	95306.3	68.61	20.3x	2.5x	554.82	12.4%

All financials for the year ended Mar-18

P/E ratio is calculated as closing share price (1stAugust 2018, NSE) / EPS

P/B ratio is calculated as closing share price (1stAugust 2018, NSE) / NAV

Valuation

The issue has been offered at a price band of Rs 418-422 per equity share. At the upper price band of Rs 422, the stock is available at P/BV multiple of 4.2x its NAV (post issue) on Mar18. Considering the business model, we have a “3-star” rating on the issue.

Arihant Research Desk

E. research@arihantcapital.com
T. 022-42254800

Head Office
#1011, Solitaire Corporate park,
Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road
Chakala, Andheri (E)
Mumbai – 400093
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office
Arihant House
E-5 Ratlam Kothi
Indore - 452003, (M.P.)
Tel: (91-731) 3016100
Fax: (91-731) 3016199

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com