Credit Access Grameen Q1FY21

Financial Results & Highlights

Brief Introduction:

CreditAccess Grameen Limited (formerly known as Grameen Koota Financial Services Pvt. Ltd.) is a microfinance institution providing a wide range of financial services to the rural poor and low-income households, particularly women. It is registered with the Reserve Bank of India under the NBFC-MFI category. The company provides loans primarily under the joint liability group (JLG) model. Its primary focus is to provide income generation loans which comprised 87.02% of its total JLG loan portfolio, as of March 31, 2018. It also provides other categories of loans such as family welfare loans, home improvement loans and emergency loans to existing customers.

CreditAccess Grameen is also an aggregator of the National Pension Scheme (NPS) of the Government of India. As of March 31, 2018, CreditAccess Grameen had 516 branches across 132 districts in the states of Karnataka, Maharashtra, Madhya Pradesh, Chhattisgarh, Tamil Nadu, Odisha, Kerala, Goa, and the union territory of Puducherry.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	511	377	35.54%	461	10.85%
PBT	86	148	-41.89%	30	186.67%
PAT	64	96	-33.33%	23	178.26%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	620	377	64.46%	482	28.63%
PBT	100	148	-32.43%	41	143.90%
PAT	75	96	-21.88%	31	141.94%

Detailed Results:

1. The company had a good quarter with more than 65% growth in YoY revenues. There was additional growth in revenues due to the addition of Madura MFI revenues in Q1FY21 as well which was not present last year.
2. The profits for the company fell 22% YoY while PBT declined 32% due to an increase in expenses (impairment of financial instruments) and increased provisions.
3. GLP grew 54% YoY to Rs 11,724 Cr. Standalone GLP grew 27% YoY. MMFL GLP grew 6.5% YoY.
4. The customer base expanded to 4.01 million. The standalone customer base grew to 2.876 million which is up 12.2% YoY. MMFL's customer base grew 15.9% YoY.

5. NII has risen 55.2% YoY to Rs 383 Cr. PPOP grew 56% YoY at Rs 255.6 Cr.
6. Total ECL provisions were at Rs 476.8 Cr which is at 4.21% of the loan portfolio.
7. The total COVID-19 additional provisioning buffer was at Rs 245.6 Cr which is at 2.17% of the portfolio.
8. RoA and RoE was at 2.2% and 10.3%.
9. GNPA was at 1.62% while NNPA was at 0%.
10. The liquidity position was at Rs 1377 Cr as of 30th June 2020. CRAR was at 23.7%.
11. On-time centre meetings with >98% customers. CAGL recorded a collection efficiency of 74% in June/ 76% in July. MMFL (Madura Micro Finance Ltd) recorded a collection efficiency of 54% in June/ 64% in July.
12. CAGL: Moratorium book down from 100% in April& May to 26% in June and 24% in July.
13. MMFL: Moratorium books down from 99% in April to 90% in May, 46% in June, and 36% in July.
14. Debt to equity was at 3.3 times. Standalone debt to equity was at 2.9 times.
15. Standalone cost to income ratios was at 31% and Opex to GLP was at 4.1%.
16. The weighted average cost of borrowing was at 9.4% vs 10.3% a year ago.
17. Positive ALM mismatch with an average maturity of assets at 17 months and average maturity of liabilities at 25.2 months.
18. Disbursements were minimal in Q1 with only Rs 46 Cr done.
19. GL loans accounted for 94.9% of total loans with the rest being retail finance.
20. GL loan usage breakup was:
    1. Animal Husbandry: 45%
    2. Trading: 21%
    3. Partly Agri: 14%
    4. Production: 8%
    5. Housing: 4%
    6. Education: 1%
    7. Others: 7%
21. Only 1 district now has >4% of the total loan portfolio.
22. Karnataka remains the biggest market for the company with 40% of GLP. Maharashtra comes in second with 24.2% of GLP and Tamil Nadu is third with 19.9% of GLP.

Investor Conference Call Highlights:

1. The company is focussing on making its on-ground network and sales and customer-facing organization as agile as possible.
2. The moratorium was only provided to those who needed it.
3. Excluding Maharashtra, collection efficiency in July shall exceed 80%.
4. The company has also kept on the annual increment and bonus plans to maintain employee morale.
5. All the disbursal was done in cashless mode only.
6. Only 17% of customers have not made any payments and are under full moratorium. The management expects less than 4-5% of these customers to not be able to pay up once the moratorium ends.
7. The management has stated that if how the COVID-19 situation pans out will determine whether the company will be able to maintain its annual growth momentum.
8. The company has sufficient capital, branches, and employees to grow 10-15% in FY21.
9. The company aims to maintain growth in step with industry growth in the medium term and demand for the industry remains intact with good room for growth.
10. The models of MMFL and CAGL are different in terms of their repayment times as MMFL has monthly repayment while CAGL has weekly payments. The management expects MMFL performance should be better than other competitors with the same monthly model.
11. MMFL performed better than CAGL in Karnataka.
12. The company has started providing repeat loans to groups who have made full repayments.
13. Collections were mainly hampered due to local lockdowns in states and districts.
14. Disbursements are expected to grow as new customer acquisition shall start once COVID-19 comes down and growth comes back as it does seasonally in H2 each year.
15. The management expects a 4-5% increase in collections in Karnataka as local lockdowns ease going forward.
16. The company's decision to issue CP of Rs 200 Cr is mainly to diversify funding sources and not due to any liquidity overhang.
17. The company has also taken approval for Rs 1000 Cr of NCDs to stay ready in case it needs to raise additional funds.
18. The company has already 65% of accrued interest for moratorium 1 in June.
19. The company restricts weekly meetings to 4-6 participants so that it can meet all customers within a month.
20. New groups are formed of max 5 members to ensure adequate social distancing norms.
21. There aren't any specific fault lines exposed in the MFI business.
22. The change in operations is happening towards digital processes which have been hastened due to the pandemic.
23. There aren't any inconsistencies in customers who have already started their repayment behaviour.
24. The company has appointed PWC for integration efforts with MMFL. Technical integration should be completed by end of FY21.
25. The company will be applying a singular operation process once the integration is completed. Even if a monthly collection policy is put in place, weekly meetings will continue to take place.
26. Customer retention remains a top priority for the company.

27. Repayment behaviour is very subjective and it is not appropriate to compare different regions as there may be different issues in different places.
28. The growth is being driven by new customer acquisition in new states and the company remains focused on expansion in these states thus reducing the contribution of the top 3 states.
29. The procedural approvals will take some time for the merger and it is expected to be completed in due course.
30. The availing moratorium is not applied at the group level and is only put up at an individual level.
31. The management expects normalcy in businesses to come back in 5-6 months.
32. Initial installments that were paid after the moratorium will be used to pay off the accrued interest portion and the loan period will get extended.

Analyst Views:

Credit Access Grameen has emerged as one of the most reliable microlenders in the country. Their revolutionary JLG model has helped bring communities of borrowers together and helped reduce overall risk from their lending to a very large extent as seen in their low NPA numbers. The company has delivered a stellar Q1 performance despite the challenges from lockdown and COVID-19. The company was able to maintain GLP growth and keep operating expenses down while increasing collection efficiency once lockdown ended. The company's acquisition of Madura Microfinance which should help the company gain a ready and set customer base with good data and history of repayment as well as continue its pace of expansion. It remains to be seen whether the company will be able to maintain its current growth pace of >30% in FY21 given the integration issues with MMFL and the ongoing COVID-19 pandemic. Nonetheless, given its strong market position and exemplary operating and risk management practices, Credit Access Grameen remains one of the must-watch stocks in the Microfinance sector for any interested investor.