Credit Access Grameen Q3FY21

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)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	440	454	-3.08%	471	-6.58%	1422	1223	16.27%
PBT	-95	146	-165.07%	105	-190.48%	95	421	-77.43%
PAT	-72	108	-166.67%	78	-192.31%	70	305	-77.05%
Consolidated Financials (In Crs)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	543	454	19.60%	577	-5.89%	1740	1223	42.27%
PBT	-105	146	-172%	107	-198.13%	102	421	-75.77%
PAT	-79	108	-173%	80	-198.75%	75	305	-75.41%

Detailed Results:

1. The company had a dismal quarter with a 3% YoY decline in standalone revenues. The consolidated numbers are not comparable due to the addition of Madura MFI revenues in FY21 which was not present last year.

2. The standalone PAT for the company saw a loss of Rs 72 Cr.

3. GLP grew 39% YoY to Rs 12,321 Cr. Standalone GLP grew 15% YoY. MMFL GLP fell 0.9% YoY.

4. The customer base expanded 41% YoY to 3.906 million. The standalone customer base grew to 2.837 million which is up 1,65,194 in Q3. MMFL's customer base grew by 70120 in Q3.

5. NII has risen 23% YoY to Rs 416.7 Cr. PPoP declined 15% YoY at Rs 170.3 Cr after de-recognition of INR 68.5 crore interest income (on Stage 3 portfolio @ 60+ dpd).
6. Total ECL provisions were 5.94% in CAGL and 4.6% in MMFL.
7. Overall RoA and RoE were at -2.3% and -9.4%.
8. Overall GNPA was at 6.14% while NNPA was at 0.9%.
9. CRAR: CAGL 31.4% (Tier 1: 30.7%), MMFL 23.3% (Tier 1: 19.2%).
10. Collection efficiency at 91% for CAGL in Dec excluding arrears & including it collection was at 96%. MMFL collection efficiency excluding arrears was at 86% and including it was at 87%.
11. Standalone debt to equity was at 2.2 times. MMFL debt to equity was at 4.4 times.
12. Standalone cost to income ratios was at 43.5% and Opex to GLP was at 4.7%.
13. The weighted average cost of borrowing was at 9.4% for CAGL & 10.8% for MMFL.
14. Positive ALM mismatch with an average maturity of assets at 18 months and average maturity of liabilities at 23.7 months in CAGL.
15. Consolidated Disbursements in Q3 rose 54% YoY to Rs 4590 Cr with CAGL at Rs 4032 Cr and MMFL at Rs 558 Cr.
16. GL loans accounted for 96.1% of total loans for CAGL with the rest being retail finance.
17. GL loan usage breakup was:
    1. Animal Husbandry: 46.2%
    2. Trading: 24.5%
    3. Partly Agri: 14.9%
    4. Production: 8.2%
    5. Housing: 2.2%
    6. Others: 4%
18. Only 1 district for CAGL & 2 districts for MMFL have >4% of the total loan portfolio currently.
19. Karnataka remains the biggest market for the company with 38.3% of GLP. Maharashtra comes in second with 24.8% of GLP and Tamil Nadu is third with 19.5% of GLP.

Investor Conference Call Highlights:

1. The collection efficiency excluding Maharashtra was 93%. Collection efficiency in Maharashtra was at 86%.
2. Full paying customers increased to 88% in Dec from 81% in Sep.
3. Partial paying customers were at 7%. Nonpaying customers were at 5% only from 8% in Sep.
4. Maharashtra business is expected to come back to normal by Q4.

5. New disbursements since June is now at 45% of GLP.
6. CAGL is expected to surpass its GLP target for FY21.
7. The company has written off Rs 111.9 Cr and has not recognized interest income of Rs 61.2 Cr on stage 3.
8. The management admits that MMFL is growing at a slower rate than the industry.
9. MMFL has written off Rs 19.9 Cr and not recognized interest income of Rs 7.3 Cr of Stage 3 portfolio.
10. The company has cash and cash equivalents of Rs 1586.94 Cr. It also has Rs 1599 Cr of undrawn facility and Rs 4113 Cr of sanctions in the pipeline.
11. The management states that COVID stress is now over for CAGL and it should now resume normal growth momentum.
12. Most of the additional provisioning in Q3 is towards Maharashtra which is still under stress according to the management.
13. The management states that most of the provisions should get reversed when Maharashtra stress goes away.
14. Even in the 0 payment segment of 5%, the company is expecting a recovery of 10-15% at least.
15. The management has stated that the company will probably not need additional provisions in Q4.
16. The management is not worried by the industry trend of going cautious and it will maintain its normal growth rate in its operations in FY22.
17. The management has stated that normal provisioning will indeed increase in absolute terms as the GLP rises but it will stay at below 1% of GLP which is normal for CAGL.
18. The management is stated that Maharashtra recovery is slower than other states due to the extended lockdown as compared to other states. There aren't any pending challenges in Maharashtra for CAGL.
19. The share of Karnataka will keep coming down due to the rising share of new states like Gujarat, Rajasthan, Bihar, etc. Around 1/3rd of branches are in new states. Although the company will be stressing on geographical expansion, it will ensure that the GLP concentration remains low in % terms at the district level.
20. MMFL collection model is monthly and thus there is a lag in recognition of collections. The management is looking to enhancing the on time collections and not changing the model for faster collection.
21. The management maintains that elections and political promises do not cause much material impact on MFI business.
22. The company is also allowing customers who are in good standing and have maintained repayment behavior to pre-close existing loan and move on to a new loan. This has resulted in a difference in disbursements and the rise in GLP. Older loans were running at rates above 21% while new loans are now issued at a lower rate of 19.35%. This a benefit for customers who want to close the old loan and get a new loan.
23. The growth in mature states should slow down to 10-15% and the share of Karnataka should come down to 25% in the next 2-3 years.
24. The credit losses in COVID should be similar to that in demonetization which was close to 4%.
25. The company has reversed interest income for all partially paid customers beyond 60 DPD.
26. The management is confident that there shouldn't be any issues with its lenders due to the credit loss as it is an industry issue and this has already occurred before with demonetization when the company was not penalized.

27. The industry growth for the next 4-5 years should be near to the normal range of 20-25% CAGR and CAGL can see growth of 30-40% CAGR in the same period.
28. The management states that the company has enough capital to last till the second half of FY23 conservatively without any additional capital raise.
29. NIM was down due to the reversal of interest income. Without the reversal, it would have been close to 12%. Similarly, portfolio yield was down due to the same reason.
30. The company will keep liquidity at 12-15% of AUM and it will come down to 8% by Q2 next year.
31. Any fall in the cost of borrowing will be passed on to customers and NIM will be kept stable at above 10%.
32. New borrowing cost is at 8-8.5% and average borrowing cost is at 9-9.5% and this is expected to continue for the next 3-4 quarters according to the management.
33. The management target branch expansion of 20-25% in new geographies but this was eased in FY21 due to COVID. This pace is expected to be carried on going forward.
34. The behavioral change from the moratorium can result in credit losses rising by 50-60 bps. But this is not fixed currently and the management hopes that it doesn't come to pass.
35. The company is providing relaxation in terms of repayment as putting pressure on non-payers for repayment will start putting pressure on paying members in the same JLG.
36. The company has simplified the application process so that the customer doesn't need to visit the branch for completion and it has expanded payment process options to digital options to reduce customer travel and maintain their safety.
37. Around 15-18% of disbursement was given to new customers in Q3.
38. MMFL process integration should see the alignment of the operating model by March and the majority of the loan book will move to the Grameen model in 3 stages starting from Feb. The legal consolidation should take 3-4 months to complete. The process merger should be ready before the legal merger.
39. The management reiterates that the company doesn't have any plans to become a bank and it will continue on its mission to provide loans to low income segment especially in rural regions.

<u>Analyst's View:</u>

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 mixed Q3 performance which saw robust GLP, revenue and disbursement growth but profits remained subdued due to high provisioning. The company rising collection efficiency even in the stressed region of Maharashtra. The company's acquisition of Madura Microfinance is expected to be done in the next 3-4 months in terms of both the process and legal. It remains to be seen whether the company will be able to come back to its precovid growth rate of 30-40% CAGR given the possible 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.

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