24TH DEC 2021

5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

CREDIT ACCESS GRAMEEN

WHAT WE LIKE

BIG INDUSTRY TAILWINDS

The MFI industry has seen only 9% YoY growth in FY21 but it is widely expected to resume its momentum once COVID goes away. **Being the largest NBFC MFI currently in India with a market share of 16.9% of the industry GLP in FY21, Credit Access Grameen is in one of the pole positions to benefit from the industry momentum.**

CLASSIC JLG (JOINT LENDING GROUP) MODEL

CAGL refined the JLG model with some tenets to enhance underwriting and risk management. **Some of the tenets are:**

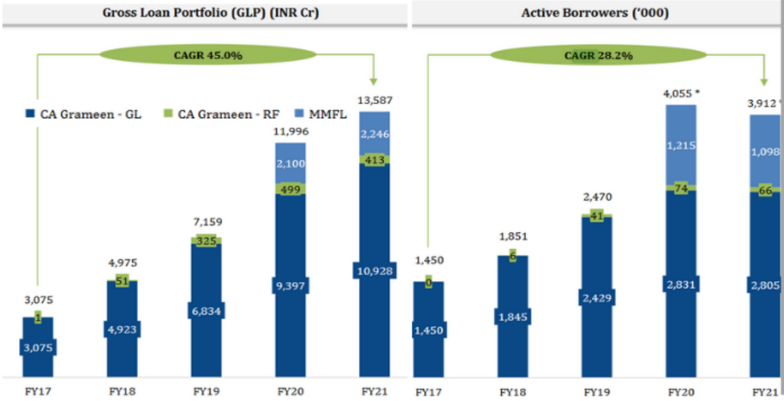
1. **First loan for income generation activity only**
2. **Mandatory credit bureau checks for every loans**
3. **Compulsory home visits prior to acquiring a new customer**
4. **Disbursement predominantly to borrower's bank account**
5. **Loan utilization check post disbursement**

RURAL FOCUS

CAGL has made rural focus a big strategic priority. **Each branch has been planned to cover the maximum number of villages located within a radius up to 30 Kms from each branch office.** This has resulted in **rural penetration of 85%** for CAGL in FY21. **~90% of employees are hired fresh from rural communities & ~50%-60% of employees are from families of active customers.** This helps CAGL maintain a high employee retention rate & enhance its understanding of the rural base, especially at the local level. **We at Smart Sync feel that this rural focus can prove to be a decisive factor for CAGL as the MFI race intensifies.**

% of employees from the local community
(hired from native state)
CA Grameen **97.83%**
MMFL **98.49%**

EXEMPLARY GROWTH MOMENTUM



WHAT WE DON'T LIKE

GEOGRAPHICAL CONCENTRATION RISK

Although CAGL is present in 14 states & 1 UT in India, the **top 3 states contribute to 75.7% of borrowers & 80.3% of GLP.** The breakup is:

1. **Karnataka: 29.1%** of borrowers & **38.1%** of GLP.
2. **Maharashtra: 21.1%** of borrowers & **22.9%** of GLP.
3. Tamil Nadu: **25.5%** of borrowers & **19.3%** of GLP.

This makes CAGL vulnerable to damage from any risks pertaining to these specific states like natural disasters, political disturbances, etc.

EXPOSURE TO AGRICULTURAL/GENERAL ECONOMIC SENTIMENT

Around 79.5% of loans by Credit Access Grameen are for Income Generation purposes. Most of these group loans are related to Agri-related purposes. **The sector with the highest NPAs in FY21 was also Agri allied activities at 2.46% highlighting the damage done to the segment from COVID-19.** **Any further adverse impact in the agricultural or general economic sentiment may prove detrimental for repayment of the company's loans.**

RISK FROM LACK OF DIVERSIFICATION (BOTH ASSET & LIABILITY SIDE)

Unlike most MFIs which convert into SFBs and expand their operational horizons to utilize its existing customer base for various cross sell opportunities, **Credit Access Grameen has chosen to remain focused on the Microfinance segment only with a very small presence in the retail finance sector till date.** Although this may help the company refine and enhance its MFI model due to its singular focus, **it also limits its operational capabilities and increases overall risk due to the high proportion of unsecured loans (Asset Side) and dependence on external funds through debt and QIPs to pursue growth (Liability Side).**

HIGH VOLATILITY IN THE PAST YEAR

Credit Access Grameen has seen high volatility in terms of both price and PE in the past year with the **stock price falling down to 500 and rising back to 730 in the past 30 days alone.**
Although the PE valuation appears very high at 93 times currently, the PB is at a comfortable 2.6 times which is reflective of the tough period the industry is going through and represents the uncertainty associated with the company and the industry in the near future.

For More details: http://smartsyncservices.com/creditaccess-grameen/

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