Credit Access Grameen Q4FY21

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)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	609	461	32.10%	440	38.41%	2031	1684	20.61%
PBT	99	30	230.00%	-95	204.21%	194	451	-57.0%
PAT	72	23	213.04%	-72	200.00%	142	328	-56.71%
Consolidated Financials (In Crs)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	726	482	50.62%	543	33.70%	2466	1705	44.63%
PBT	79	41	93%	-105	175%	180	462	-61%
PAT	56	31	81%	-79	170.89%	131	335	-60.90%

Detailed Results:

1. The company had a good quarter with a 32% YoY rise 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 profit of Rs 72 Cr.
3. GLP grew 13% YoY to Rs 13,587 Cr. Standalone GLP grew 14.6% YoY. MMFL GLP grew 7% YoY.
4. Disbursements grew 42% YoY with CAGL up 42% YoY and MMFL up 41% YoY.
5. New disbursals (June 2020- March 2021) accounted for 69% of GLP.

6. The customer base fell 3.5% YoY to 3.912 million. The standalone customer base fell to 2.871 million down 1.2% YoY. MMFL's customer base fell by 9.7% YoY.
7. NII has risen 58.7% YoY to Rs 463.7 Cr. PPoP grew 83.3% YoY at Rs 329 Cr.
8. Total ECL provisions were 5% in CAGL and 5.07% in MMFL.
9. Overall RoA and RoE were at 1.5% and 6%.
10. Overall GNPA was at 4.43%.
11. CRAR: CAGL 31.8% (Tier 1: 30.5%), MMFL 20.9% (Tier 1: 17.7%).
12. Collection efficiency at 94% for CAGL in March excluding arrears & including it collection was at 97%. MMFL collection efficiency excluding arrears was at 90% and including it was at 91%.
13. Standalone debt to equity was at 2.4 times. MMFL debt to equity was at 5.3 times.
14. Standalone cost to income ratios was at 29.2% in Q4 & 34.8% in FY21. Opex to GLP was at 4.6% in Q4 & 4.5% in FY21.
15. WA cost of borrowing for CAGL was at 8.9% in Q4.
16. Positive ALM mismatch with an average maturity of assets at 18.5 months and average maturity of liabilities at 22.7 months in CAGL.
17. GL loans accounted for 96.4% of total loans for CAGL with the rest being retail finance.
18. GL loan usage breakup was:
    1. Animal Husbandry: 45.7%
    2. Trading: 26.6%
    3. Partly Agri: 15%
    4. Production: 7.9%
    5. Housing: 1.6%
    6. Others: 3.2%
19. Only 1 district for CAGL & 2 districts for MMFL have >4% of the total loan portfolio currently.
20. Karnataka remains the biggest market for the company with 38.2% of GLP. Maharashtra comes in second with 23.4% of GLP and Tamil Nadu is third with 18.9% of GLP.

<u>Investor Conference Call Highlights:</u>

1. The consolidated customer base declined from 40.55 lakhs to 39.12 lakhs primary due to the write-off of over 2.4 lakh delinquent borrowers.
2. The company added a total of 4 lakh new borrowers at CAGL primarily during H2 and 1.6 lakh borrowers at MMFL during the same period.
3. Consolidated NII grew by 59% YoY.

4. The company decided to recognize accelerated write-off of accounts worth Rs 273 Cr with 180 DPD and no payment since Jan 2021, resulting in an additional credit cost of Rs 64 Cr in Q4.
5. The process integration of MMFL is expected to be complete in H1FY22.
6. The company maintained liquidity of over 15% of gross AUM and holds undrawn sanctions over Rs 2614 Cr.
7. It is seeing a decline of 5-6% in collections in April due to localized lockdowns.
8. The drop in customer base is due to customer attrition, where 5% to 8% natural attrition is there accounting for 2.4 lakh, & a rise in portfolio per customer due to vintage linked increase.
9. Q1 should stay subdued in terms of collections if customer accessibility is restricted, but any normalization here should lead to a revival in collections.
10. Maharashtra continues to lag other states in terms of revival in collections due to the early lockdowns announced in the state.
11. MMFL & CAGL collections are not comparable as they have different models with MMFL having a lag in collections due to the monthly model which leads to a delay in recognition.
12. New customer loan size is Rs 30,000-35,000. The majority of new customer acquisition is taking place in Gujarat, Rajasthan, UP, Bihar, Jharkhand, and Odisha while there is Karnataka & Maharashtra is seeing customer set decline, particularly in Maharashtra as CAGL is not allowing employees to add new customers because wherever the collection efficiency is less than 90%.
13. 61% growth comes from the new branches according to the management.
14. Older customers have loan sizes of Rs 35000-50,000. 12-14% of old customers have loans of > Rs 50,000.
15. 70-80% of MFI customers are in essential services. Thus this set remains resilient especially given that it has already gone through the tough period at the start of the pandemic and persisted through with good repayment behaviour.
16. CAGL has suspended all group meetings at present, keeping the 2nd wave of COVID in mind. It is only asking one group member to keep the money ready with them and 1 collection agent will come to pick it up only from that member. This is because, despite the option of online payment, its adoption has remained low among customers given that it has become harder to go to banks to deposit cash.
17. MMFL has not done any restructuring.
18. The management hopes that MFIN will be able to convince the regulatory body to relax the cap on spread for MFIs to create a level playing field for everyone engaged in the MFI business.
19. Only 20-25% of vintage customers eligible for an additional loan have availed of the benefit.

Analyst's View:

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 good Q4 performance which saw robust GLP, revenue, and disbursement growth but profits remained subdued due to high provisioning. The company rising collection efficiency till March but it is expected to drop due to the rise of the 2nd wave of COVID-19. The complete integration of Madura Microfinance is expected to be done in H1FY22. It remains to be seen whether the company will be able to come back to its pre-covid growth rate of 30-40% CAGR given the possible integration issues with MMFL and how the 2nd wave of COVID-19 will affect near term operations. 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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