

### Subscribe for Long term

Issue Details	
Price Band (Rs)	418 - 422
Face Value(Rs)	10
Issue Size(Rs)	1131 Cr
Issue Type	Book Building
Minimum lot	35 Shares
Issue Opens	August 8, 2018
Issue Closes	August 10, 2018
Listing on	BSE, NSE

Indicative Timeline	On or before
Finalization of Basis of Allotment	August 16, 2018
Unblocking of Funds	August 20, 2018
Credit of shares to Demat Account	August 21, 2018
Listing on exchange	August 23, 2018

Other Detail	
Book Running Lead Managers	ICICI Securities Limited, Credit Suisse Securities Limited, IIFL Holdings Limited, Kotak Mahindra Capital Company Limited
Registrar	Karvy Computershare Private Limited

## CreditAccess Grameen Limited

### Company Background

Incorporated in 1991, Bangalore based CreditAccess Grameen Limited (CAGL) is one of the leading NBFC lending microfinance in Karnataka, Maharashtra, Tamil Nadu, Chhattisgarh, Madhya Pradesh, Odisha, Kerala, Goa, and union territory Pondicherry. Initially, the company was incorporated in Calcutta as Sanni Collection Private Limited (SCPL) and later on was acquired by Vinatha M. Reddy, Vijitha Subbaiah, and Suresh K. Krishna in the year 2007 to be merged under Muniswamappa Trust ("TMT"), a public charitable trust engaged in the business of providing micro loans in Karnataka. Venture was named Grameen Koota Financial Services Pvt Limited. The company name was changed to CreditAccess Grameen Limited in January 2018.

CreditAccess Grameen Limited is focused on providing micro loans to women customers predominantly in Rural Areas. Its wide range of lending products cater for the critical needs of its Customers throughout their life cycle and includes income generation, family welfare, home improvement and emergency loans.

CreditAccess Asia N.V (CAA) is the promoter of CGL with 99% stake in company. CAA specializes in MFI and is backed by various global institutional investors. Headquartered in Amsterdam, the Netherlands they have presence across Asia covering India, Indonesia, Philippines, Thailand, and Vietnam.

### Issue Details

IPO offers 26.8mn shares of face value Rs.10 each amounting to Rs.1131Cr on the upper price band. There is Offer for sale by the promoter Creditaccess Asia N.V of 11.88mn shares, and another Rs.6300mn will be raised through fresh issue. Net Proceeds from the Fresh Issue will be utilized to augment capital base to meet future capital requirements. Moreover, objective of the issue is to enhance its visibility and brand image and provide liquidity to existing shareholders. Promoter would be diluting 18.58% of their stake to 80.30% post issue. For Anchor investors issue will open on August 7, 2018.

### IPO share allotment pattern

Category	Allocation	Number of Shares	Issue Size (Rs.Cr) at	
			Lower Band (Rs. 418)	Upper Band (Rs.422)
QIB	50%	1,34,02,697	560	565
Non Institutional	15%	40,20,809	168	170
Retail	35%	93,81,888	392	396
Total	100%	2,68,05,394	1120	1131

Source: Company RHP, ACMIIL

### Outlook and Valuations

CreditAccess Grameen Limited is an acknowledged NBFC with forte in microfinance lending. They are focused on rural India and the under penetrated rural market provides ample growth opportunities for CAGL. In past five years, their Gross AUM has increased with a CAGR of 57.45% and management is confident to carry the same growth in the near future. At the upper price band of Rs.422 its asking price is at a P/E of 35.17x and P/BV of 3x based on FY18 data, which makes it fully priced. We recommend **SUBSCRIBING the issue with long-term prospective.**

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## Business Overview

CAGL provides microfinance in rural areas especially to women for their upliftment. Finance is usually given to women having an annual household income of Rs.160,000 or less in urban areas and Rs.100,000 or less in rural areas. Products are designed according to the need and requirement of focused customers. Few products of CAGL are:

- **Income Generation Loans:** These loans are for supporting business setup and expansion. Ticket size is up to Rs.50,000 with interest rate of 21% p.a. Tenure on loan is from 52 weeks to 104 weeks depending on the amount.
- **Home Improvement Loan:** It helps to acquire basic facilities such as water connection, sanitation, and repairing of house. Ticket size is Rs. 5000 to Rs. 50000 with 18% p.a interest rate. Tenure of the loan is minimum 52 weeks to 208 weeks depending on the loan amount.
- **Emergency Loans:** It is available to existing clients for any kind of crisis on short term basis. Loan amount is up to Rs. 1000 for maximum of 3 months carrying 18% p.a interest.
- **Family Welfare Loans:** This is also available for existing clients for improving their life quality by way of acquiring household stuff, education purpose, or paying off medical expenses. Loan amount could be Rs. 1,000 to Rs. 15,000 depending upon the purpose with 18% p.a. interest rate. Loan tenure is 12 weeks to 52 weeks.
- **Retail Finance:** These are provided to customers who are with CAGL for at least three years and are capable of taking larger loans. These are business loans for business expansion and asset acquisition. It is categorized under Grameen Udyog Loan, Grameen Savaari Loan, and Grameen Suvidha Loan.

## Investment Rationale

### Distinct Business Model

CAGL provide loans under joint liability group (JLG) model. Under this model, there are frequent customer interactions via weekly / fortnightly Kendra meetings and loan applications are approved by the group and are accepted as joint liability of the group. The customer's borrowing limits are based on their loan cycles and their tenure with the CAGL. Credit bureau keeps a check on every client acquisition and loan sanctioned. Income generation loan is the prime product of CAGL which is 87.02% of total JLG loan portfolio. Operations are well-diversified geographically with no single district contributing more than 5% to gross AUM. Further, out of total 132 districts, ~75% of each of these districts individually represents less than 1% of gross AUM.

### Non-financial services to uplift lifestyle / improve living pattern

CAGL is committed to work towards overall development of low income families by providing financial and non-financial services. Apart from monetary facilities they have many other programs such as:

- **Social Awareness Campaigns (SAC)** - These campaigns are conducted to spread awareness on issues such as health, sanitation, HIV/AIDS, nutrition, family planning, income generation activities, enterprise development, law, and financial literacy. CAGL have collaboration with various institutions to provide services such as group insurance, personal insurance, health insurance, pension schemes, cottage industries, and group enterprises including training in Panchayat Raj and other developmental programs at the government level.
- **Jagruti** - It is a women centric program educating them on various issues and bringing a perpetual shift in their mindset.
- **Sushikshana** - It is an interactive children education program on non-curricular topics such as water, sanitation, hygiene, financial literacy, and career guidance. It is delivered to students of government, private, aided, and un-aided schools in Karnataka and Maharashtra.
- **WASH** - WASH (water, sanitation and hygiene) program addresses the impact of unsanitary practices on the health of the community through community education modules. Purpose is to create awareness at different levels (district, taluk, panchayat, village, community) and offers access to finance and infrastructure to effectively address the challenge of poor sanitation.

### Focused on Rural India

Rural India accounts for 45% of GDP but only 10% of country's total credit outstanding is from rural regions due to lack of formal banking system. This provides ample growth opportunity for CAGL to expand its operations penetrating deep in rural. Company operates in 132 districts across Karnataka, Maharashtra, Tamil Nadu, Chhattisgarh, Madhya Pradesh, Odisha, Kerala, Goa, and one union territory of Pondicherry through 516 branches and 4,544 loan officers. Around 82% branches are located in rural areas. Moving ahead, the management with focus on rural and semi-urban intends to expand in other states as well strengthening its presence across the country.

### Third largest NBFC with immense Customer base

According to Crisil Research, CAGL is the third largest NBFC in India in terms of gross AUM which stands at Rs.49,747mn as on March 31, 2018. Customer base as on March 31, 2018 was 21,87,174 with 18,51,324 active customers. Rural customers are 81% of total customer base. CAGL have 84% customer retention rate, much higher than industry average of 78% retention. CAGL's financial products have various products covering entire customer life cycle which make it apart from its peers.

## Financials

CAGL posted total income of Rs. 8,752mn in FY18 growing by 56% CAGR during FY14-18. Net profit was Rs. 1,246mn with 14.24% margins. Its Gross NPA was 1.97% highest compared with the past, reflecting temporary impact of demonetization. CAGL has no NPAs in its books. In the last three fiscals, average ROE is 16.1%. Its long-term instruments have credit rating of ICRA A and CRISIL's mF1.

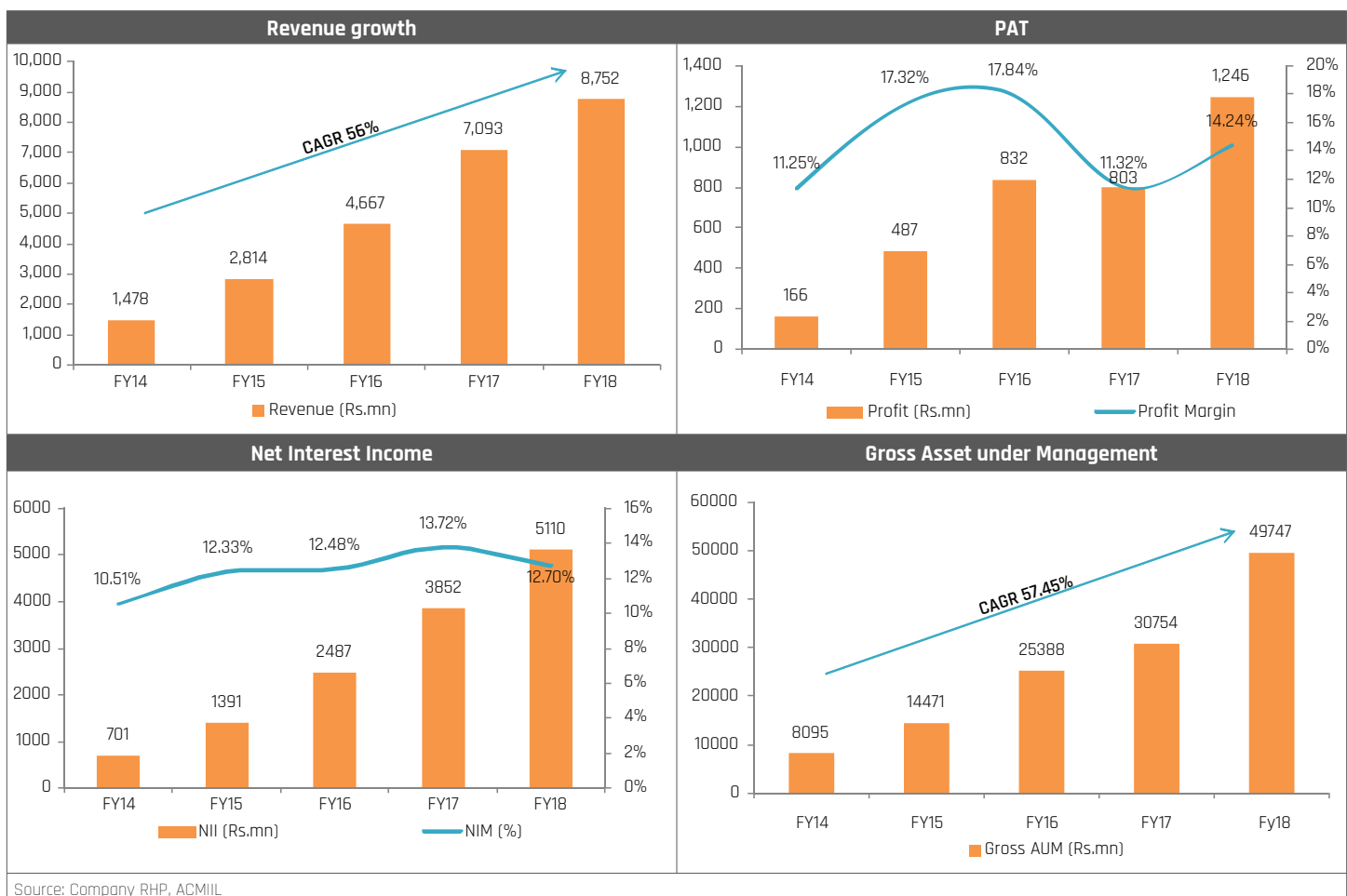
## Risks and Concern

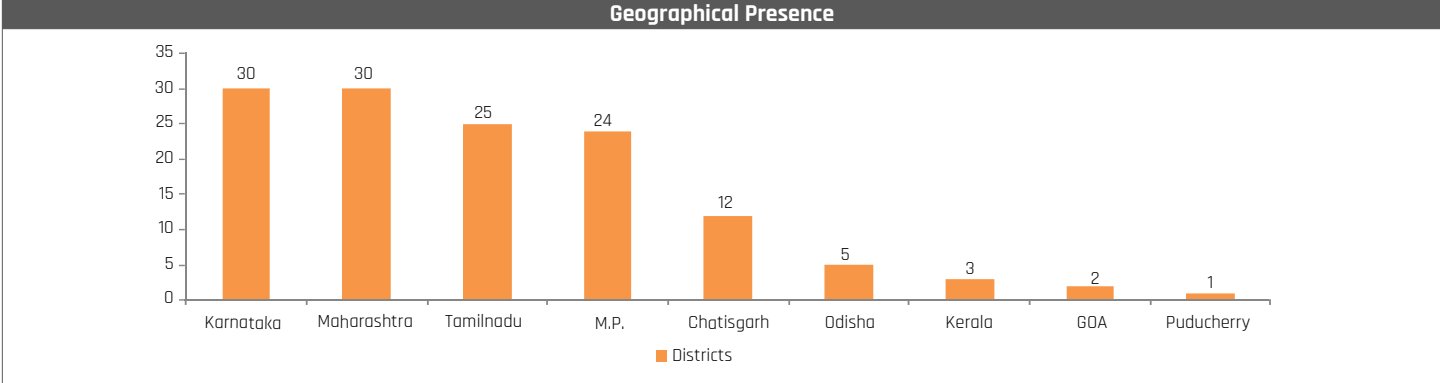
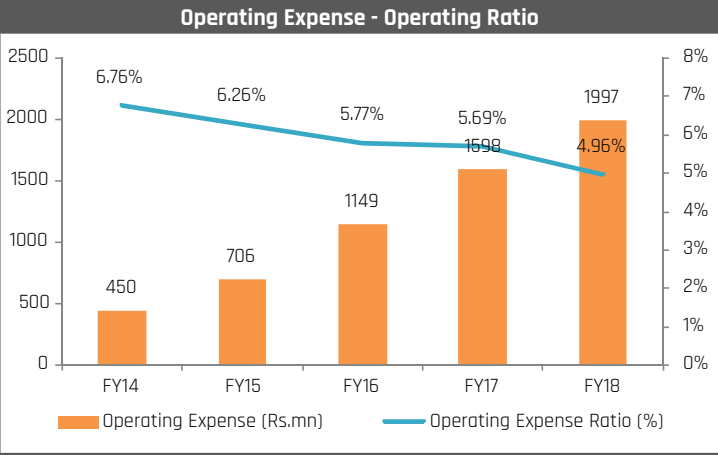
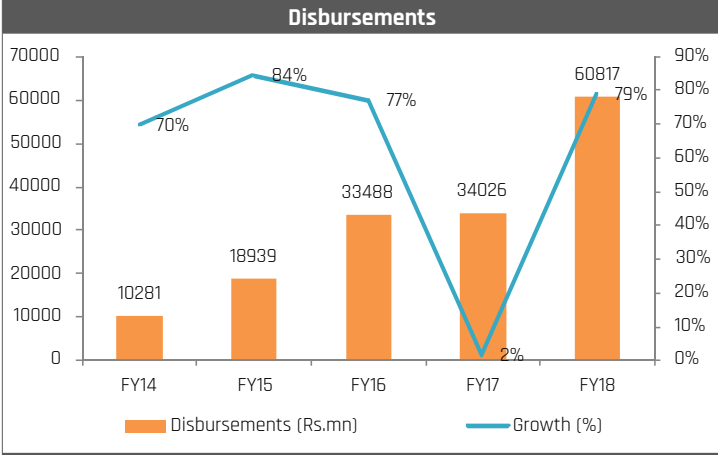
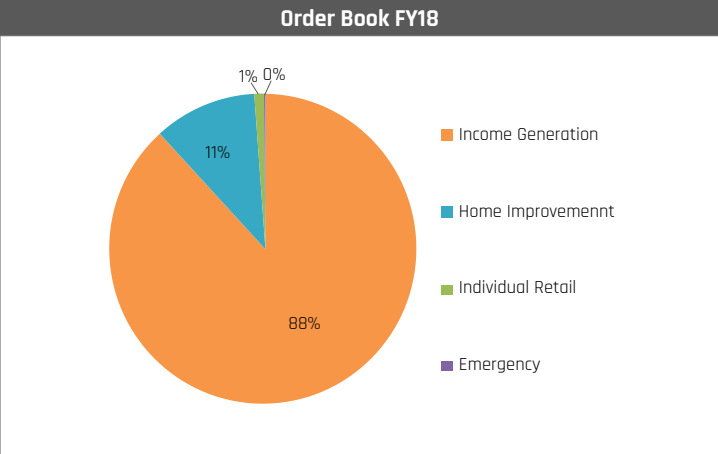
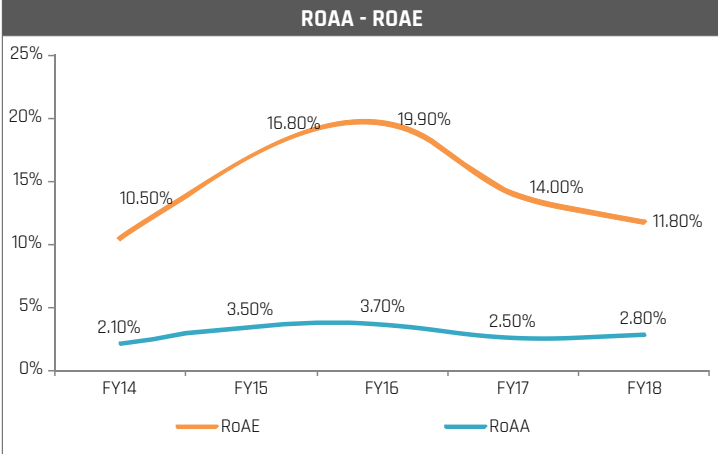
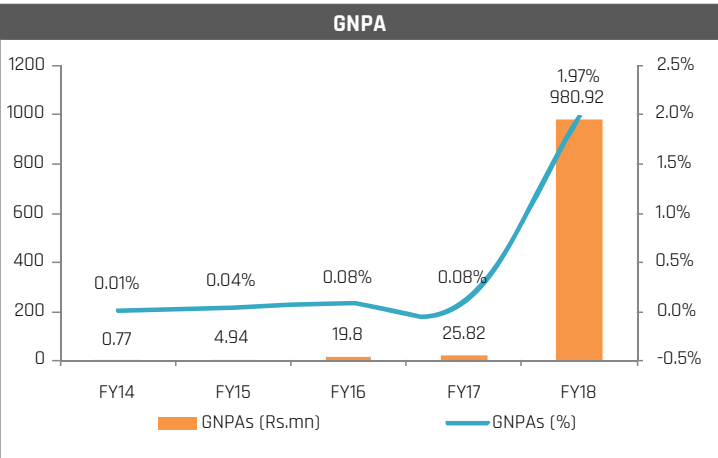
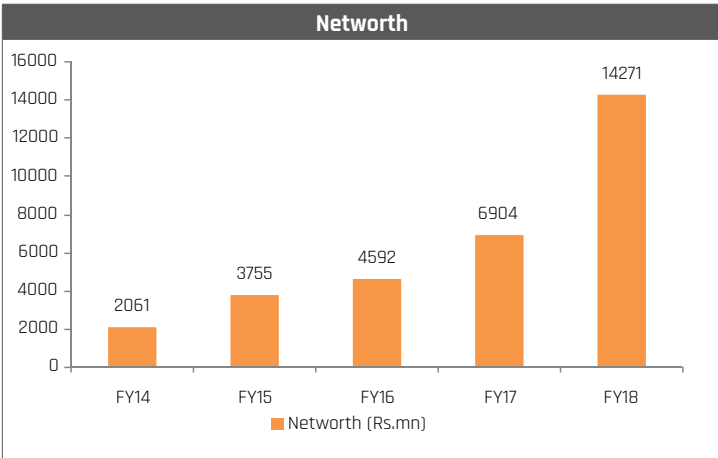
- **Geographical Risk:** CAGL's operations are mainly concentrated in Karnataka and Maharashtra, which exposes the company to geographical risk
- **Interest Rate Risk:** Being a NBFC, any interest rate volatility might materially impact business.
- **Asset Quality:** As of now company is able to maintain decent asset quality, but given the current ecosystem and the unsecured nature of MF loans, asset quality might be impacted adversely.

## Peer Comparison

Company	Face Value (Rs)	Net Worth (Rs.mn)	EPS (Rs.)	PE (x)	P/B (x)	Return on net worth (%)
Creditaccess Grameen Limited	10	14279	12	35.17	3	8.73
Bharat Financial Inclusion Limited	10	29986	33	34.33	5.71	15.18
Au Small Finance Bank Limited	10	2857	10.26	64.13	8.24	12.8
Ujjivan Financial Services Limited	10	208.6	0.61	626.2	2.61	0.41
Equitas Holdings Limited	10	13543	0.92	159	2.19	1.37
Shriram Transport Finance Company Limited	10	123610	68.61	20.33	2.51	12.36
Mahindra & Mahindra Financial Services Limited	2	99152	17.62	28.55	3.07	10.32

Source: Company RHP, ACMIIL





Source: Company RHP, ACMIIL

## Financials

### Income statement

Particulars (Rs. mn)	FY14	FY15	FY16	FY17	FY18
<b>Revenue from operations</b>	1,423	2,682	4,570	7,017	8,656
Other income	55	133	98	75	97
<b>Total revenue</b>	<b>1,478</b>	<b>2,814</b>	<b>4,667</b>	<b>7,093</b>	<b>8,752</b>
<b>Expenses</b>					
Employee benefits expenses	292	436	707	1,047	1,272
Finance costs	723	1,291	2,082	3,165	3,546
Other expenses	153	251	416	507	673
Depreciation and amortisation expenses	5	19	26	44	52
Provision and write-offs	57	68	140	1,086	1,281
<b>Total expenses</b>	<b>1,230</b>	<b>2,065</b>	<b>3,372</b>	<b>5,850</b>	<b>6,823</b>
<b>Profit before tax</b>	<b>248</b>	<b>749</b>	<b>1,295</b>	<b>1,243</b>	<b>1,929</b>
<b>Tax expense</b>					
Current tax	86	286	514	813	553
Deferred tax charge/(credit)	-5	-27	-51	-375	129
Short provision of tax relating to earlier years	1	3	0	1	0
Total tax expense	82	262	463	440	682
<b>Profit for the year</b>	<b>166</b>	<b>487</b>	<b>832</b>	<b>803</b>	<b>1246</b>
PAT Margin %	11.25%	17.32%	17.84%	11.32%	14.24%
<b>Earnings per equity share</b>					
Basic	4.18	9.15	11.41	10.01	12
Diluted	4.18	9.01	11.23	9.88	12

Source: Company RHP, ACMIIL

## Balance sheet

Particulars (Rs mn)	FY14	FY15	FY16	FY17	FY18
<b>Equity and liabilities</b>					
<b>Shareholders' funds</b>					
Share capital	530	730	730	857	1,284
Reserves and surplus	1,543	3,034	3,869	6,051	12,995
<b>Net Worth</b>	<b>2,073</b>	<b>3,764</b>	<b>4,599</b>	<b>6,908</b>	<b>14,279</b>
<b>Non-current Liabilities</b>					
Long-term borrowings	3,700	5,850	11,221	11,759	14,800
Long-term provisions	29.01	29.84	107.52	307.23	1,006.19
<b>Total Non current Liabilities</b>	<b>3,729</b>	<b>5,880</b>	<b>11,329</b>	<b>12,066</b>	<b>15,806</b>
<b>Current liabilities</b>					
Short-term borrowings	0	0	200	0	0
Other current liabilities	4,717	7,504	11,745	15,494	22,044
Short-term provisions	62	120	207	1,173	54
<b>Total Current Liabilities</b>	<b>4,779</b>	<b>7,624</b>	<b>12,152</b>	<b>16,667</b>	<b>22,098</b>
<b>Total Equity &amp; Liabilities</b>	<b>10,581</b>	<b>17,268</b>	<b>28,080</b>	<b>35,641</b>	<b>52,183</b>
<b>Assets</b>					
<b>Non-current assets</b>					
<b>Fixed assets</b>					
Property, plant and equipment	25	26	53	60	95
Intangible assets	2	12	60	63	67
Capital work-in-progress	0	0	0	7	0
Intangible assets under development	2	25	0	23	11
Non-current investments	2	2	2	2	2
Deferred tax asset	32.16	59.47	110.31	484.94	355.83
Loans and advances	1,586.89	2,703.02	7,712.25	6,376.15	15,900.28
Other non-current assets	447.64	737.31	392.42	119.58	55.5
<b>Total Non current Assets</b>	<b>2,097</b>	<b>3,564</b>	<b>8,330</b>	<b>7,136</b>	<b>16,486</b>
<b>Current assets</b>					
Cash and bank balances	3,250	2,798	2,549	3,637	1,382
Loan and advances	5,177	10,827	17,042	24,515	34,097
Other current assets	56	79	159	354	219
<b>Total Current Assets</b>	<b>8,484</b>	<b>13,704</b>	<b>19,749</b>	<b>28,505</b>	<b>35,698</b>
<b>Total Assets</b>	<b>10,581</b>	<b>17,268</b>	<b>28,080</b>	<b>35,641</b>	<b>52,183</b>

Source: Company RHP, ACMIIL

# Asit C. Mehta

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