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## Acquisition of Madura Microfinance

### Concall Highlights on Acquisition of Madura Microfinance

- CREDITACC will acquire a 100% stake in MMFL in a two-step process. In the first leg, it will acquire up to 76.2% stake in MMFL from its existing shareholders for cash and in the second stage, Madura will be merged into CREDITACC through a scheme of arrangement. As part of the merger, the residual shareholders of Madura will receive shares of CREDITACC at the share swap ratio proposed in the Scheme. This acquisition is subject to regulatory approvals (RBI, SEBI & NCLT). Both companies are professionally managed.
- Madura is the 11th largest NBFC-MFI in India with AUM of Rs 2,053 Cr, 11.1 Lakh borrowers and 430 branches as at 2QFY20. It has Tamil Nadu dominated MFI (60% of branches as at 2QFY20). This acquisition is expected to strengthen the CREDITACC leadership position with a combined portfolio of Rs 9,958 Cr, 37 lakh borrowers and 1,300+ branches spread across 13 states and 1 union territory in India. Further, CREDITACC can leverage on Madura's superior technological platform.
- Madura has a very strong technological platform for better customer acquisition while CREDITACC has a very strong back end process. Both the expertise is expected to get blended tastefully. CREDITACC uses Temenos core banking.
- The consolidate branches are at 1317(887 CREDITACC), consolidated borrowers stood at 3699(2640 CREDITACC) & Conso. Loan officers stood at 8856(7110 CREDITACC).
- High customer acquisition and multi-products offered by CREDITACC, has led to higher average ticket size while Madura, on the contrary, provides only 1 product. Management expects to take over Madura customers and provide them higher ticket size loan over some time. Life cycle needs products (CREDITACC product profile) is expected to get offered to Madura (Offers only 1 product) which will enhance customer retention.
- Madura has a monthly collection model with 5.2% opex to AUM. The implementation of a weekly/fortnightly collection model will lead to a higher share of customer acquisition further improving operational efficiency.
- Management (CREDITACC) is expecting to raise capital in the next 6-9 months. Management maintains 5x leverage & raises capital if CAR falls below 20%. Management has no further plans for inorganic acquisition.
- Management remains confident about maintaining asset quality with no issue from Odisha & Assam's portfolio.
- Mr. Paolo Bricchetti, Chairman, CreditAccess Grameen Limited, states it has the strategic intent to maintain its long term commitment to CREDITACC. Management expects to decline the stake to 75% over a period of time, while merger & capital raising is aiding the dilution objective.

### View and Valuation

With the acquisition of Madura, CREDITACC will add 1 year of organic growth with consolidated AUM standing at Rs 9958 Cr. It will help in decline the share of Karnataka from 51% to 41% by further scaling up presence in existing markets and provides access to newer markets like Bihar, Odisha, etc. It will lead to branches & borrowers growth by 48% & 40%, with only a 1% overlap in the borrowers. The acquisition is subject to regulatory approvals (RBI, SEBI & NCLT). We expect this acquisition will improve CREDITACC's market share in the industry while providing it a required edge by forging technological integration with Madura. This acquisition is a 76% cash deal while rest is expected through share swap (1.8% dilution of CREDITACC). Management has guided to further raise growth capital. we wait for RBI approval for the acquisition to factor in our estimate. The stock is trading at 4.2x in FY20, we raise our target to Rs 918 and maintain BUY.

### Key Risks to our rating and target

- Denied regulatory approvals
- Spike in asset quality with Madura Gaja cyclone affected portfolio.

RATING	BUY
CMP	816
Price Target	918
Potential Upside	13%
Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	849/350
Mkt Capital (Rs Cr)	11,678
Free float (%)	13%
Avg. Vol 1M (,000)	162
No. of Shares (Cr)	14
Promoters Pledged %	

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	802	1040	1240
PPP	573	690	822
PAT	322	439	531
NIM %	13.2	12.6	11.6
EPS (Rs)	22	31	37
EPS growth (%)	35.4	36.4	21.0
ROE (%)	16.9	17.0	17.3
ROA (%)	5.2	5.2	4.9
BV	165	195	232
P/B (X)	3.0	4.2	3.5
P/E (x)	22.4	26.7	22.1

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## Strong Growth

### 2QFY20 Results

### Below Our Expectations

Fig in Rs Cr

FINANCIALS	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	301	320	312	364	381	26.6%	4.7%	457	702	53.6%
Interest Exp.	107	110	103	124	136	27.1%	9.6%	207	324	56.3%
NII	195	210	210	241	246	26.3%	2.2%	250	377	51.3%
Other Income	9	31	24	12	10	14.9%	-19.5%	10	8	-23.1%
Total Income	203	241	234	253	256	25.8%	1.2%	259	385	48.5%
Ope Exp.	73	77	82	89	102	41.1%	14.5%	115	160	39.1%
PPP	131	164	151	164	154	17.4%	-6.1%	144	225	56.0%
Provisions	17	10	34	15	28	64.7%	79.2%	14	109	NA
PBT	114	154	117	148	126	10.4%	-15.0%	130	117	-10.6%
Tax	41	54	41	52	26	-36%	-50.0%	47	41	-11.3%
Net Profit	73	100	76	96	100	35.8%	4.1%	213	322	51%

### Madura Background

- Madura was started by erstwhile promoters of Bank of Madura.
- Bank of Madura started micro-lending in 1995 and merged with ICICI bank in 2001.
- Post merger, the micro-lending business continued in a partnership model between ICICI Bank & Micro Credit Foundation of India (MCFI).
- MCFI transitioned into Madura Micro Finance Ltd, an NBFC in 2005.
- Madura started operations in 2006 and is based in Chennai and has evolved as rural focused MFI.

### Presence

- Upto 70% of the AUM is from TN, 8% is from Maharashtra, 7% is from Odisha, 6% is from Kerala and 4% is from Karnataka.
- The management has started its MFI business from Tamil nadu in 2006, it enters Maharashtra & Karnatka in 2014, while Keral in the year 2016 and latest entry in Bihar & Odisha in the year 2018.

### Product Profile

PRODUCT	Typical Ticket Size (Rs.)	Tenor (Months)	Disbursement Mix	Rate Of Interest
Entry Level Loan	33,000	22/24/30	66%	21.45%
Activity Team Loan	40,000-15,000	24/30	31%	
Certified ATL	12,000-15,000	20	3%	
Business Development Loan	15,000	20/24		

## Profitability Matrix

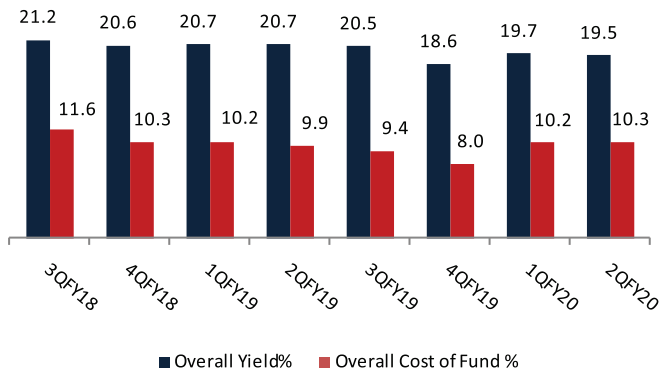
	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	36.0	33.0	35.7	31.9	35.2	35.4	40.0	4.32	4.65
Empl. Cost/ Tot. Exp. %	63.4	65.0	64.2	63.9	60.8	65.5	63.9	-0.29	-1.66
Other Exp/Tot. Exp. %	34.1	32.4	32.9	33.5	36.7	30.8	30.1	-2.84	-0.75
Provision/PPP %	(2.0)	11.0	12.9	6.3	22.4	9.5	18.0	5.19	8.59
Tax Rate %	35.2	35.7	35.6	35.0	35.0	35.0	35.0	-0.59	0.00
Int Exp./Int Inc. (%)	33.0	34.3	35.4	34.4	32.9	33.9	35.5	0.14	1.58
Other Inc./NII %	2.0	1.5	2.9	9.7	7.7	3.4	2.9	0.02	-0.50
PPP/ Net Income %	64.0	67.0	64.3	68.1	64.8	64.6	60.0	-4.32	-4.65
PAT/ Net Income %	42.3	38.3	36.1	41.4	32.6	37.9	39.0	2.86	1.10
NII Growth % (YoY)	-	181.0	57.6	69.9	27.5	29.1	26.3	-31.26	-2.74
PPP Growth YoY %	-	257.6	65.6	106.0	39.6	29.6	17.4	-48.22	-12.25
PAT Growth %	-	798.1	20.5	54.9	6.2	32.7	35.8	15.26	3.08

## Margin Performance

MARGIN %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
Overall Yield (%)	20.6	20.7	20.7	20.5	18.6	19.7	19.5	-1.20	-0.20
Cost of Funds (%)	10.3	10.2	9.9	9.4	8.0	10.2	10.3	0.40	0.10
Spreads(Cal) (%)	10.3	10.5	10.8	11.1	10.6	9.5	9.2	-1.60	-0.30
NIM Calc.(%)	15.7	16.2	15.3	15.0	13.7	14.4	13.7	-1.66	-0.76

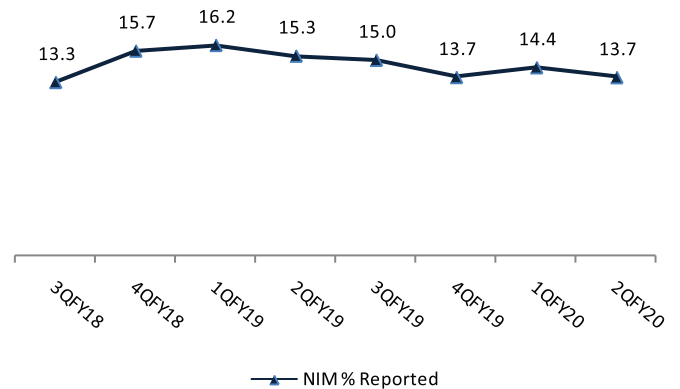
## Exhibit: Yield and Cost

Spreads has declined sequentially



## Exhibit: Net Interest Margin

NIM (Calc.) has declined QoQ



## Asset & Borrowings Growth Trend

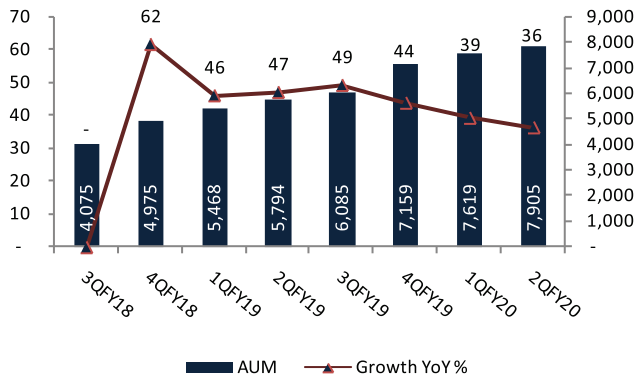
Fig in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Disbursements	1296	1911	1616	1571	1762	3272	2310	2186
Growth YoY %	83	167	-4	31	36	71	43	39
AUM	4075	4975	5468	5794	6085	7159	7619	7905
Growth YoY %	0	62	46	47	49	44	39	36
Borrowings	2992	3603	4090	3903	4260	4886	5100	5495
Growth YoY %	0	0	32	16	42	36	25	41

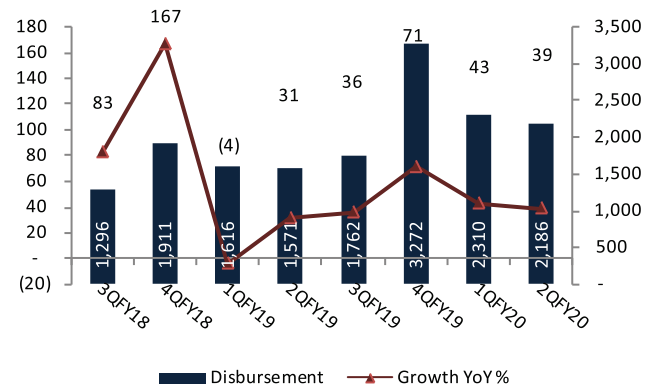
## Asset Composition

MFI Loans (%)	89	86	80	78	78	85	85	84
Non-Income Gen. (%)	11	13	18	19	19	10	10	10
Retail Finances (%)	0	1	2	3	3	5	5	5

## Exhibit: AUM Growth %



## Exhibit: Disbursement Growth %



## AUM Break up

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
IGL (%)	86	80	78	78	85	85	84
Family welfare (%)	2	7	7	4	1	3	4
Emergency (%)	0	0	0	0	0	0	0
Retail Finance (%)	1	2	3	3	5	5	5
Total	100	100	100	100	100	100	100

## Asset Quality

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
GNPA Calc.	98	47	56	60	40	41	40
GNPA (%)	1.97	0.90	1.00	1.01	0.61	0.55	0.52
NNPA Calc.	-	3	3	-	-	-	-
NNPA (%)	-	0.05	0.05	-	-	-	-
PCR (%)	100	94	95	100	100	100	100

Fig in Rs Cr

## Branch

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Group Loan	486	541	610	610	610	693	822
Rural Finance	30	32	46	49	60	60	65
Total	516	573	656	659	670	753	887
Kendras	130	134	143	157	164	169	175
District	132	146	156	156	157	170	213

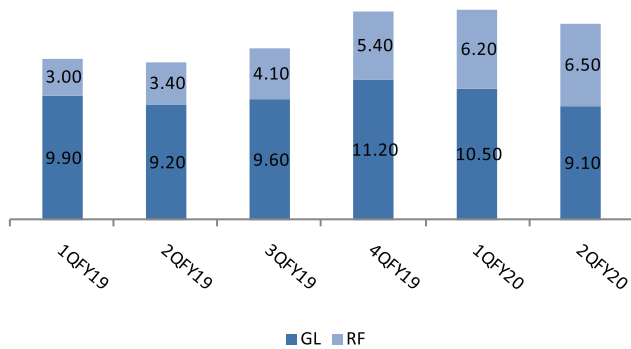
## Geography Concentration

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Karnataka	58	-	57	54	53	52	51
Maharashtra	27	-	26	26	26	26	26
Madhya Pradesh	6	-	-	-	8	8	8
Tamil Nadu	7	-	8	10	10	11	11
Others	2	-	9	10	4	4	4

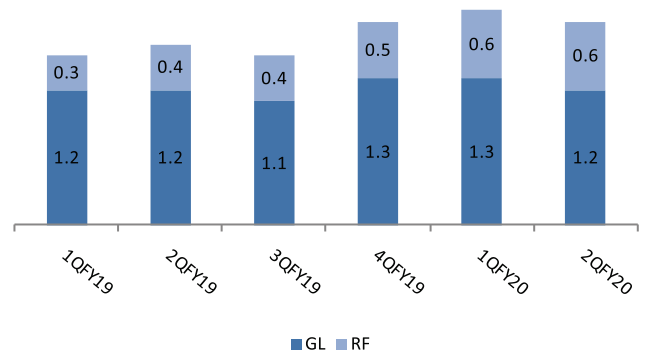
## Employees

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Employees	6,306	6,575	7,355	7,798	8,064	8,641	9,817
Group Loan		6,043	6,673	7,008	7,135	7,647	8,764
Rural Finance		532	682	790	929	994	1,053

## Exhibit: GLP/Branch



## Exhibit: GLP/Loan Officer



## Exposure of Districts

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
< 0.5%	78	91	101	103	105	118	163
0.5%-1%	22	23	24	20	19	19	17
1%-3%	26	26	26	29	29	29	29
3%-5%	5	5	4	3	3	4	4
> 5%	1	1	1	1	1		

## District in terms of portfolio

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Top 1 (%)	6	6	5	5	5	5	5
Top 3 (%)	15	14	14	13	13	13	13
Top 5 (%)	22	22	21	20	20	19	19
Top 10 (%)	36	35	34	32	32	31	31
Other (%)	64	65	66	68	68	69	60

## Contribution to overall growth %

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Top 1 (%)	6	5	3	(1)	5	3	3
Top 3 (%)	13	12	12	2	11	9	7
Top 5 (%)	21	20	11	1	16	14	10
Top 10 (%)	34	31	18	(4)	27	25	18
Other (%)	66	69	82	104	73	75	82

## Average O/S Per Customer

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
IGL	18,700	17,900	17,300	20,800	20,900	20,500
Family Welfare	8,200	7,400	5,000	2,900	7,600	7,200
Home Improvement	10,500	10,000	9,600	9,100	8,200	7,500
Emergency	600	600	600	700	600	600
Retail Finance	77,100	76,500	73,500	77,200	73,400	70,600
Average Ticket Size	15,900	15,100	14,200	17,300	17,800	16,800

Fig in Rs Cr

## Financial Details

### Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Share Capital</b>	<b>53</b>	<b>73</b>	<b>73</b>	<b>86</b>	<b>128</b>	<b>144</b>	<b>144</b>	<b>144</b>
Equity Capital	53	73	73	86	128	144	144	144
Preference Capital								
Reserves & Surplus	158	308	392	605	1309	2222	2660	3191
<b>Networth</b>	<b>211</b>	<b>381</b>	<b>465</b>	<b>691</b>	<b>1437</b>	<b>2365</b>	<b>2804</b>	<b>3335</b>
Change (%)	88	80	22	49	108	65	19	19
Total Borrowings	805	1291	2297	2668	3603	4886	6508	8461
Change (%)	107	60	78	16	35	36	33	30
Provisions	9	15	31	148	7	12	13	14
Other Liabilities	37	45	20	57	67	95	114	136
<b>Total Liabilities</b>	<b>1062</b>	<b>1731</b>	<b>2813</b>	<b>3564</b>	<b>5114</b>	<b>7357</b>	<b>9467</b>	<b>11996</b>
Investments	0	0	0	0	0	0	0	0
Loans	677	1353	2475	3089	4896	6603	8609	11131
Change (%)	71	100	83	25	58	35	30	29
Fixed Assets	3	6	11	15	17	27	33	42
Other Assets	57	92	71	96	71	153	134	174
Cash Balances	325	280	255	364	130	574	690	649
<b>Total Assets</b>	<b>1062</b>	<b>1731</b>	<b>2813</b>	<b>3564</b>	<b>5114</b>	<b>7357</b>	<b>9467</b>	<b>11996</b>

### Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	142	268	457	702	860	1,218	1,589	1,935
Interest expended	69	128	207	324	354	417	549	696
Net Interest Income	73	140	250	377	506	802	1,040	1,240
Change (%)	57	92	78	51	34	58	30	19
Other Income	5	13	10	8	8	8	39	29
Change (%)	116	142	(26)	(23)	3	9	366	(26)
Total Net Income	78	154	259	385	518	867	1,079	1,269
Change (%)	60	96	69	48	35	67	25	18
Operating Expenses	45	71	115	160	203	294	388	447
Change (%)	27	57	63	39	27	45	32	15
Employee Expenses	29	43	71	105	130	186	252	282
Change (%)	30	49	63	48	25	43	36	12
Other Expenses	15	25	42	51	67	100	121	152
Pre-provisioning Profit	33	83	144	225	315	573	690	822
Change (%)	149	148	74	56	40	82	21	19
Provisions	6	7	14	109	(13)	75	94	104
Change (%)	31	19	105	675	(112)	(658)	26	11
PBT	28	76	130	117	328	498	596	717
Tax	9	27	47	41	116	176	157	187
Profit After Tax	19	49	84	75	213	322	439	531
Change (%)	119	167	69	(10)	182	51	36	21
Adjusted Profit After Tax	19	49	84	75	213	322	439	531
Change (%)	119	167	69	(10)	182	51	36	21

## Financial Details

### Key Ratios

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Balance Sheet Metrics</b>								
AUM	810	1447	2539	3075	4975	7159	9307	12099
Off-Book AUM	0	0	0	0	0	0	0	0
AUM Growth (%)	54.5	78.8	75.4	21.1	61.8	43.9	30.0	30.0
Borrowing Growth (%)	107.1	60.3	78.0	16.2	35.0	35.6	33.2	30.0
Loan/Borrowing Ratio	0.8	1.0	1.1	1.2	1.4	1.4	1.3	1.3
Disbursement (Rs Cr)	0	1894	3349	3403	1911	8221	10702	14122
Disbursement Growth (%)	-	-	77	2	(44)	35	30	32
CRAR (%)	32	28	21	30	29	36	33	30
Tier 1 (%)	28.7	26.6	17.6	20.2	28.1	-	31.5	29.6
Tier 2 (%)	2.8	1.6	3.9	9.5	0.9	-	1.1	0.9
Debt/Equity (x)	3.8	3.4	4.9	3.9	2.5	2.1	2.3	2.5
<b>Assets Quality Metrics</b>								
Gross NPA (Rs)	0	0	2	3	98	40	56	85
Gross NPA (%)	0.0	0.0	0.1	0.1	2.0	0.6	0.6	0.7
Net NPA (Rs)	-	-	-	-	-	-	-	-
Net NPA (%)	-	-	-	-	-	-	-	-
Provision Coverage (%)	100	100	100	100	100	100	100	100
Provision/Average Advances (%)	0.9	0.6	0.7	3.9	(0.3)	1.2	1.1	1.0
<b>Margin Metrics</b>								
Yield On Advances (%)	21.3	23.8	22.9	25.0	21.4	19.8	19.3	18.1
Cost Of Funds (%)	9.4	10.8	11.1	13.0	11.3	9.8	9.6	9.3
Spread (%)	11.9	12.9	11.9	12.0	10.1	9.9	9.7	8.8
NIM on AUM (%)	10.9	12.4	12.5	13.4	12.6	13.2	12.6	11.6
<b>Profitability &amp; Efficiency Metrics</b>								
Int. Expended/Int.Earned (%)	48.8	47.7	45.4	46.2	41.1	34.2	34.6	35.9
Other Income/NII (%)	7.5	9.5	3.9	2.0	2.3	8.1	3.8	2.3
Operating Profit/ Net Income (%)	42.6	54.0	55.7	58.5	60.8	66.1	64.0	64.8
Net Profit/Net Income (%)	23.6	32.2	32.3	19.5	41.0	37.1	40.7	41.8
Cost to Income (%)	57.4	46.0	44.3	41.5	39.2	33.9	36.0	35.2
Employee Exp/ Net Income (%)	37.2	28.3	27.3	27.2	25.2	21.5	23.4	22.2
Cost on Average Assets (%)	5.6	5.1	5.1	5.0	4.7	4.7	4.6	4.2
Provisions/PPP (%)	17.2	8.2	9.7	48.2	(4.3)	13.1	13.6	12.7
Tax Rate (%)	33.1	35.0	35.7	35.5	35.3	35.4	26.4	26.0
<b>Valuation Ratio Metrics</b>								
EPS (Rs)	3	7	11	9	17	22	31	37
Change (%)	63.6	93.9	69.4	(23.5)	88.5	35.4	36.4	21.0
ROAE (%)	11.4	16.7	19.8	13.0	20.0	16.9	17.0	17.3
ROAA (%)	2.3	3.5	3.7	2.4	4.9	5.2	5.2	4.9
Dividend Payout (%)	-	-	-	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-	-	-	-
Dividend Per Share	-	-	-	-	-	-	-	-
Book Value (Rs)	40	52	64	81	112	165	195	232
Change (%)	40.5	31.0	22.1	26.5	38.8	47.2	18.6	18.9
P/B (X)	-	-	-	-	-	3.0	4.2	3.5
P/E (X)	-	-	-	-	-	22.4	26.7	22.1

## Financial Details

### Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	17.7	19.2	20.1	22.0	19.8	19.5	18.9	18.0
Interest expended	8.6	9.2	9.1	10.2	8.1	6.7	6.5	6.5
<b>Net Interest Income</b>	<b>9.1</b>	<b>10.0</b>	<b>11.0</b>	<b>11.8</b>	<b>11.7</b>	<b>12.9</b>	<b>12.4</b>	<b>11.6</b>
Non-Fund Based Income	0.7	1.0	0.4	0.2	0.3	1.0	0.5	0.3
Total Income	9.8	11.0	11.4	12.1	11.9	13.9	12.8	11.8
<b>Total Operating Expenses</b>	<b>5.6</b>	<b>5.1</b>	<b>5.1</b>	<b>5.0</b>	<b>4.7</b>	<b>4.7</b>	<b>4.6</b>	<b>4.2</b>
Employee Expenses	3.6	3.1	3.1	3.3	3.0	3.0	3.0	2.6
Other Expenses	2.0	1.9	1.9	1.7	1.7	1.7	1.6	1.5
Operating Profit	4.2	5.9	6.4	7.1	7.3	9.2	8.2	7.7
Provisions	0.7	0.5	0.6	3.4	(0.3)	1.2	1.1	1.0
Others	-	-	-	-	-	-	-	-
PBT	3.4	5.4	5.7	3.7	7.6	8.0	7.1	6.7
Tax	1.1	1.9	2.1	1.3	2.7	2.8	1.9	1.7
PAT/RoAA	2.3	3.5	3.7	2.4	4.9	5.2	5.2	4.9
Equity Multiplier (x)	5.0	4.7	5.4	5.5	4.1	3.3	3.3	3.5
ROAE	11.4	16.7	19.8	13.0	20.0	16.9	17.0	17.3



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