Credit Access Grameen Ltd

Issue Snapshot:

Issue Open: August 08 – August 10, 2018

Price Band: Rs. 418 – 422

Issue Size: 26,805,395 Equity Shares* (Fresh Issue of 14,928,910 eq sh + Offer for Sale of 11,876,485 eq sh)

Offer Size: Rs.1120.46 crs – 1131.18 crs

QIB Upto 50% eq sh
Retail atleast 35% eq sh
Non Institutional atleast 15% eq sh

Face Value: Rs 10

Book value: Rs 111.12 (Mar 31, 2018)

Bid size: - 35 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:
Pre Issue Equity: Rs. 128.43 cr
Post issue Equity: Rs. 143.36 cr

Listing: BSE & NSE

Book Running Lead Manager: ICICI Securities Ltd, Credit Suisse Securities (India) Private Ltd, IIFL Holdings Ltd, Kotak Mahindra Capital Company Ltd

Registrar to issue: Karvy Computershare Private Ltd

Shareholding Pattern

Shareholding Pattern	Pre issue %	*Post issue %
Promoter and Promoter Group	98.88	80.30
Public & Others	1.12	19.70
Total	**100.0**	**100.0**

*assuming pricing at higher end of band
Source for this Note: RHP

Background & Operations:

Credit Access Gramen Ltd (CAGL) is a leading Indian micro-finance institution headquartered in Bangalore, focused on providing micro-loans to women customers predominantly in Rural Areas in India. Its wide range of lending products addresses the critical needs of its Customers throughout their life cycle and includes income generation, family welfare, home improvement and emergency loans. CAGL's customer-centric business model, wide range of product offerings, as well as its well-designed product delivery and collection systems, has enabled to achieve high customer retention rates and low credit costs. It focus predominantly on Customers in Rural Areas in India, who largely lack access to the formal banking sector and present a latent opportunity for offering micro-loans.

CAGL's products are built on a deep understanding of the requirements of its Customers (especially Customers from Rural Areas) and the flexibility of its products (in terms of ticket sizes, end-uses and repayment options) and the manner of their delivery differentiates it from its competitors and generates customer loyalty. Its focus customer segment is women having an annual household income of Rs160,000 or less in Urban Areas and Rs100,000 or less in Rural Areas. It provides loans primarily under the joint liability group ("JLG") model. CAGL's primary focus is to provide income generation loans to its Customers, which comprised 87.02% of its total JLG loan portfolio, as of March 31, 2018. It also provide other categories of loans such as family welfare loans, home improvement loans and emergency loans to its existing Customers. In 2016, with a view to diversifying its product profile, the company introduced individual retail finance loans for customers who had been its Customers for at least three years and fulfil certain other eligibility criteria linked primarily to their credit history with it, income, and business position. It offers these loans to customers to establish a new enterprise or expand an existing business in their individual capacity (for instance, for the purchase of inventories, machinery or two wheelers).

CAGL has followed a strategy of contiguous district-based expansion across regions and, as of March 31, 2018, it cover 132 districts in the eight states (Karnataka, Maharashtra, Tamil Nadu, Chhattisgarh, Madhya Pradesh, Odisha, Kerala, Goa) and one union territory (Puducherry) in India through 516 branches and 4,544 loan officers. Its operations are well-diversified at the district level, with no single district contributing more than 5% to its Gross AUM (apart from one which contributed less than 6% to its Gross AUM) as of March 31, 2018.

Objects of Issue:

The Offer comprises of the Fresh Issue and the Offer for Sale.

Offer for Sale

The Promoter Selling Shareholder shall be entitled to the proceeds of the Offer for Sale, net of its share of the Offer related expenses. The fees and expenses relating to the Offer shall be shared in the proportion mutually agreed between CAGL and the Promoter Selling Shareholder in accordance with applicable law. The company will not receive any proceeds from the Offer for Sale.

Fresh Issue

- CAGL proposes to utilise the Net Proceeds from the Fresh Issue towards augmenting its capital base to meet future capital requirements.

- Further, CAGL expects to receive the benefits of listing of the Equity Shares on the Stock Exchanges, enhancement of CAGL's brand name and creation of a public market for the Equity Shares in India.

- The main objects clause as set out in the Memorandum of Association enables CAGL to undertake its existing activities and the activities for which funds are being raised by the Company through the Fresh Issue.

Competitive Strengths

Customer-centric business model resulting in high customer retention*:* CAGL consider its Customers to be the most significant stakeholders at the core of its operations. As of March 31, 2018, it served over 1.85 million Active Customers out of a total Customer base of 2.19 million. Its customer-centric business model allows to retain a high proportion of its existing customers and to attract new customers. Its financial products cater to the entire customer life cycle –CAGL provides loans that are relevant for critical needs of its Customers throughout their lifespan. This is a core quality of customer-centric business model and helps in generating loyalty amongst its existing customers and in attracting new customers. CAGL's products are built on a deep understanding of the requirements of its Customers and the flexibility of its products and the manner of their delivery differentiates it from its competitors and allows to maintain a high level of customer retention. Its products are tailored to the needs of its Customers and the structure of its product offerings enables Customers to borrow less than the standard amounts, at multiple points of time during a year, thereby enabling its Customers to tide over temporary cash flow mismatches on their end, on account of reasons such as seasonality and cyclicality. This keeps its Customers optimally levered.

High customer engagement –CAGL follow a predominantly weekly collection model, which enables a high degree of customer engagement. Whilst majority of its Customers are on a weekly collection model, it also offers a fortnightly and four-weekly collection models based on their needs. The high customer engagement achieved via the frequency of its collections and weekly or fortnightly meetings, and interactions with its Customers is an important factor in ensuring customer repayment and keeping its credit costs at optimal levels.

Grievance resolution – as part of a continuous development process, it has implemented several methods to obtain feedback from its Customers and further promote customer awareness. CAGL's area managers also obtain feedback from its Customers on a periodic basis on satisfaction levels relating to its products and services, Kendra meetings, loan disbursement and recovery process and staff engagement. It aims to provide timely resolution to the grievances that it receives through its grievance redressal cell.

Deep penetration in Rural Areas characterized by low competition and built through contiguous district-based expansion*:* CAGL's deep penetration in Rural Areas, built through a contiguous district-based expansion strategy provides with a significant scale and diversification advantages. It carry out its contiguous expansion strategy methodically whereby it aims to expand to the next (typically adjoining) district and ensure deep penetration in a particular district within three years of commencement of operations in the district. Its operations are well-diversified at the district level, with no single district contributing more than 5% to its Gross AUM (apart from one which contributed less than 6% to its Gross AUM), as of March 31, 2018. Further, out of a total of 132 districts where CAGL had branches as of March 31, 2018, more than 75% of each of these districts individually represents less than 1% of its Gross AUM. CRISIL Research notes that rural contribution to India's GDP is almost as large as urban contribution, and, since rural penetration of banks is 1.7% compared to urban penetration of 5.6%, with only 30% of disbursements to rural customers, it indicates that the competitive intensity in rural areas is far lower than that in urban areas. Taking into account the opportunity and lower competitive intensity in rural segments, it has increased its footprint in India's rural areas unlike other industry players over the years

Robust customer selection and risk management policies resulting in healthy asset quality*:* CAGL follows robust customer selection and risk management policies, which has resulted in healthy asset quality and lower credit costs. It follow a systematic methodology in the selection of new geographies where it open branches, which takes into account factors such as the historic PAR% of the proposed district, competition in the new geographies, potential for micro lending and socio-economic risk evaluation (for e.g., the risk of communal riots or natural disasters). Further, it do not provide incentives to its employees linked to disbursements or collections, which functions as a risk management tool. In addition, CAGL follow a rotation policy whereby the loan officers are rotated every year and the branch managers are rotated bi-annually. Its systematic geography and customer selection methodologies has resulted in healthy asset quality. Its internal audit department is responsible for monitoring and evaluating internal controls and ensuring statutory and regulatory compliance. Its effective credit risk management is reflected in its portfolio quality indicators such as robust repayment rates, stable PAR and low rates of GNPA and NNPA. CAGL has actively managed its portfolio over the past four Financial Years, which has ensured that no single district (apart from one) contributes more than 5% to its Gross AUM, as of March 31, 2018.

Strong track record of financial performance and operating efficiency: CAGL has maintained a strong track record of financial performance and operating efficiency over the years through high rates of customer retention, geographical expansion, improved staff productivity, enhancement of individual loan portfolio, lower credit cost and growth in customer base led by branch expansion. Its deep penetration in India's rural markets through its contiguous district-based expansion strategy has helped it to achieve one of the lowest operating expense ratios, contributing to economies of scale. It had the lowest operating expense ratio amongst the top-eight NBFC-MFIs and SFBs for the year ended March 31, 2017, which demonstrates its operating efficiency. This is also reflected in the consistent decline in CAGL's Operating Expense to Annual Average Gross AUM ratio, which has declined from 6.76% for the year ended March 31, 2014 to 5.69% for the year ended March 31, 2017, and further to 4.96% for the year ended March 31, 2018. CAGL's net interest margin (which is different from the net interest margin prescribed by the RBI for NBFC – MFIs in the Master Directions), which is its net interest income divided by its Annual Average Gross AUM, for the financial years ended March 31, 2016, 2017 and 2018 was 12.48%, 13.72% and 12.70%, respectively. Its net

worth as of March 31, 2018 was Rs 14,270.83 million. Its profit after tax for the financial years ended March 31, 2016, 2017 and 2018 was Rs832.41 million, Rs802.98 million and Rs1,246.41 million, respectively.

Stable management team with extensive domain experience: CAGL is a professionally managed company and its senior management team has an established track record in the financial services industry. Its Key Management Personnel has an average experience of approximately eight years with the Company. Its Promoter is CreditAccess Asia N.V., a multinational company specializing in MSE financing (micro and small enterprise financing), which is backed by institutional investors and has micro-lending experience through its subsidiaries in four countries in Asia. Its Promoter has provided capital funding to it from time to time and provides it with access to potential fundraising opportunities in the debt capital markets.

Diversified sources of borrowings and effective asset-liability management: CAGL's funding sources are varied, as that a diversified debt profile ensures that it is not overly dependent on any one type or source for funding. As an NBFC-MFI, it has access to diverse sources of liquidity, such as term loans from banks, financial institutions and non-banking financial companies, proceeds from loan assets assigned and securitized, cash credit, subordinated debt and proceeds from the issuance of NCDs to meet its funding requirements. This enables to optimize cost of borrowings, funding and liquidity requirements, capital management and asset liability management. CAGL also rely on proceeds from loan assets assigned or securitized to scheduled commercial banks. In addition, it also has in place effective asset liability management strategies. It primarily borrow on a relatively long term basis while lending on a short term basis. This allows to better meet the growing loan demands of its rapidly increasing customer base, even if external borrowings and funding sources face temporary realignment. Further, its Promoter has periodically funded its capital and provides it with access to potential fundraising opportunities in the debt capital markets. Its diversified sources of borrowing, stable credit history, improved credit ratings and effective asset-liability management has allowed it to gain better access to cost-effective debt financing.

Business Strategy:

Continued focus on the customers from Rural Areas: MFIs are increasingly becoming urban focused and has increased their urban footprint. However, CAGL has maintained its focus on growing rural customer base and intends to continue to do so going forward. A large segment of India's rural and semi-urban population is currently unserved and underserved by formal financial institutions, which provides CAGL with the scope to expand in rural markets characterized by low competition. The Company will be able to strengthen its position by tapping into this underserved market and are best placed to capitalize on its strategy of having a deep penetration in the Indian rural markets. Further, CAGL's products are built on a deep understanding of the life cycle requirements of its Customers from Rural Areas, which will help in the expansion of its rural customer base. CAGL intends to continue penetrating deeper in the states and districts where it currently has operations and also expand its footprint into other areas that has limited or no access to formal banking and finance channels. CAGL will continue to evaluate the offerings at its branches and customize its products to the needs and demands of its Customers in the region in which CAGL's branches are located and correspondingly update existing operations and resources in different territories.

Expansion of branch network: As of March 31, 2018, CAGL operates in 132 districts located in the eight states of Karnataka, Maharashtra, Tamil Nadu, Chhattisgarh, Madhya Pradesh, Odisha, Kerala, Goa, and one union territory of Puducherry through 516 branches and 4,544 loan officers. It intends to continue its strategy of contiguous expansion which will expand its district coverage in these states and also potentially into neighboring states. Its contiguous expansion strategy is premised on expanding to the next (typically adjacent) district and achieving a deep penetration in a district within three years of operations. CAGL's expansion strategy has resulted in mitigation of concentration risk and will continue to lead to mitigation of this risk going forward. Out of a total of 132 districts where it had branches as of March 31, 2018, more than 75% of each of these districts individually represents less than 1% of its Gross AUM.

Leverage existing capabilities and strengths to diversify product and service offerings: CAGL is an NBFC-MFI and intends to continue focusing on its operations in this space with its current business model which comprises extending loans to customers primarily in Rural Areas. To this end, it intends to capitalize on its current strengths including geographical reach, customer base, robust risk management policies, strong financial track record and extensive domain expertise to diversify its product and service offerings. Its diversification strategy is driven by the evolving needs of its Customers and this is in line with the strength of its customer-centric business model and its expansion strategy, as it allows to ensure that its Customers has access to various differentiated products and services which it need quickly and efficiently.

Focus on optimizing operating costs and improving operational efficiencies*:* Controlling CAGL's operating expenses is critical in determining its ability to offer loan products at reasonable rates to its Customers and its profitability. Its operating expenses as a percentage of Average Gross AUM has been consistently declining over the past few years, and continue to identify and implement measures that will enable CAGL to sustain and further lower its operating expenses. Further, given high customer retention rates, CAGL expects to derive scale and cost benefits as there is no incremental sourcing cost for existing customers, and they are eligible to borrow higher loan amounts from CAGL since they have progressed to higher loan cycles and has been its Customers for a number of years. CAGL continue to invest in its technology

platform and technology-enabled operating procedures to increase operational and management efficiencies and ensure customer credit quality. It intends to implement mobile based applications to make the loan application process convenient to its Customers and streamline credit approval, administration and monitoring processes. Implementing robust technology infrastructure will enable CAGL to respond swiftly to market opportunities and challenges, improve the quality of services, scale-up its risk management capabilities, optimize operating costs and improve its operational efficiency.

Industry:

Financial Inclusion

Current scenario and key developments

CRISIL Research notes that financial inclusion is imperative for sustaining equitable growth and participation in India's economy by various socio-economic classes, as financial access correlates to increased economic opportunity. In India, the major reasons for financial exclusion are poverty and low income, financial illiteracy, high transaction costs and lack of infrastructure (primarily IT). Consequently, a significant proportion of India's population today still does not have access to formal banking facilities.

The global average of adult population with an account at a bank, financial institution or other mobile money provider is approximately 62% (Source: World Bank, 2015). Approximately 53% of adults in India have an account with a bank, financial institution or other mobile money provider, which is above that of South Asia as a whole (which is around 46%). CRISIL Research notes that as of 2014, 21% of the world's unbanked adults resided in India. Therefore, India has the highest number of unbanked adults in the world, approximately 420 million, which is much higher than China's 240 million unbanked adults, considering the total global unbanked population as 2 billion. While the Pradhan Mantri Jan Dhan Yojana (PMJDY) in India has increased access to bank accounts by India's unbanked population, the availability of credit remains a challenge to large swathes of the Indian population.

Rural areas account for half of GDP, but less than 10% of banking credit

As of March 31, 2016, there were almost 640,000 villages in rural India inhabited by about 850 million consumers who make up 65-70% of the total population and contribute to nearly half of the country's gross domestic product (GDP). Despite rural India's large contribution towards the country's GDP, it accounts for only about 10% of the country's total credit outstanding in comparison to the 90% for urban India as of March 31, 2016. The divergence between rural India's contributions to the country's GDP and its access to banking credit is indicative of the extremely low financial inclusion in rural India. Notwithstanding the Government of India's efforts to bolster financial inclusion, the number of credit and deposit accounts in rural India was almost half that of urban India as of 2015-16

Large variations in availability of credit across states and districts

CRISIL Research estimates that only 5-7% of India's rural population has a loan account with banks. These figures also vary widely across states and within various districts in the same state, which suggests there are opportunities to reach bank customers that are currently unserved or underserved. In value terms, Maharashtra, West Bengal, Gujarat and Chhattisgarh have less than 10% of total credit outstanding in rural areas as of March 31, 2016. Furthermore, Karnataka, Gujarat and Chhattisgarh have more than 70% of their total credit outstanding concentrated in five districts as of March 31, 2016, indicating wide variations in credit availability across districts in the same state as well. Launched in August 2014, the PMJDY is a prominent force which focuses on ensuring households have affordable access to financial services such as banking, savings and deposit accounts, remittance, credit, insurance and pension.

Key steps taken by government to boost financial inclusion

The Reserve Bank of India ("RBI") and the government of India have taken a number of measures to improve access by unbanked areas to India's formal banking system over the past five to seven years. For example, the RBI has endorsed the use of "no-frill" accounts, the business correspondent (BC) model, a liberalisation of branch expansion/ ATM policy, new technology-led products and services, financial literacy programmes, payment banks and small finance banks, the Aadhaar card, the establishment of the PMJDY, and Micro Units Development & Refinance Agency Ltd (MUDRA). Nonetheless, rural India remains an unserved and underserved population in relation to the country's formal banking system.

Global Microfinance Industry

The origin of microfinance can be traced to the 1970s when Grameen bank was founded by Mr. Muhammad Yunus in Bangladesh, who was subsequently awarded the Nobel Peace Prize. The Grameen bank model was adopted by more than 100 countries all over the world with varying degree of success. Various countries have looked at microfinance as a tool to reduce poverty and improve living standards by providing facilities such as loans and savings accounts to poor and low income clients.

The South Asian region is dominated by India, which accounts for approximately 62% share of GLP in the South Asian region as of March 31, 2015. The aggregate GLP of Indian MFIs is the highest in the world. CRISIL Research notes that the average loan per borrower of Indian MFIs is comparable to Bangladesh, Philippines and Pakistan, and much lower than the MFIs in other countries. More importantly, Indian MFIs

have managed to lend at much lower interest rates with lower yields on GLPS as compared with global trends. The Indian MFI industry has emerged much more stronger after disruptive events (such as the AP crisis in 2010), as regulatory clarity has increased, entities started to diversify geographically, and supporting systems, such as self-regulation of the industry and making available data to credit bureaus, were put in place.

Historical Growth and Development of the Indian Microfinance industry

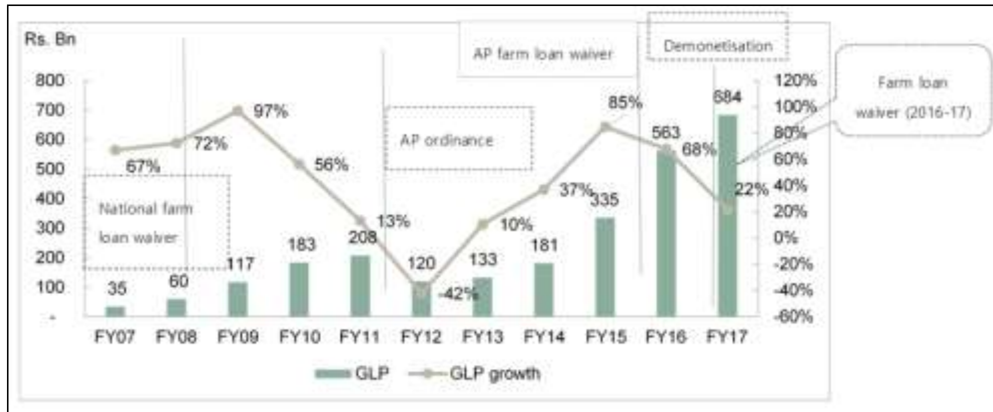
GLP has grown at 35% CAGR in the last decade

The microfinance industry's GLP has grown at a CAGR of 35% over the past 10 years to reach Rs 684 billion as of March 2017 despite some setbacks that have impacted the industry's growth. Further, growth has been far higher than the self-help group (SHG)-bank linkage programme, the outstanding for which has grown at a CAGR of 25% over the same period. As of March 31, 2017, the MFI industry had increased its reach with operations in 32 states/ union territories and catered to 39 million clients across India. The portfolio of the industry is also currently well diversified across regions with the South, North, West and East contributing to 31%, 27%, 24%, and 18%, respectively, thus reducing susceptibility to local events.

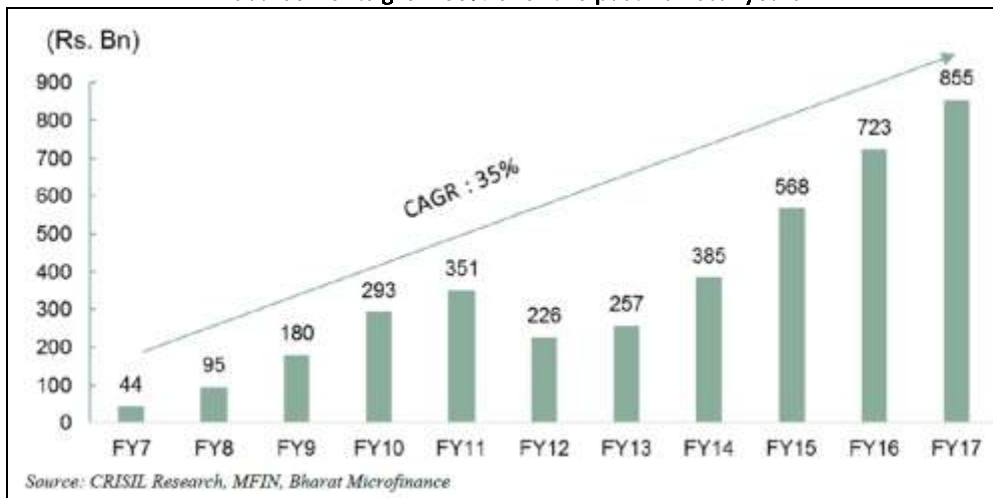
MFI industry resilient over the past decade despite some major events

The microfinance industry has been impacted by some critical events in the past decade – the national farm loan waiver (2008), the AP crisis (2010), the AP farm loan waiver (2014), SFB licences issued to eight MFIs (in-principle approval in 2015), demonetization (2016) and farm loan waivers across some states (2017). The AP crisis in 2009-10 had the most lasting impact on the industry as some players had to undertake corporate debt restructuring and found it difficult to sustain business. While demonetization of banknotes of Rs 500 and Rs 1,000 announced in November 2016 has negatively impacted the industry, the impact was not as serious or lasting as the AP crisis. Nonetheless, portfolio at risk and collections data since the beginning of the current fiscal year indicates that the microfinance industry is recovering from the crisis in the immediate aftermath of demonetization.

Microfinance industry has shown resilience over the past decade

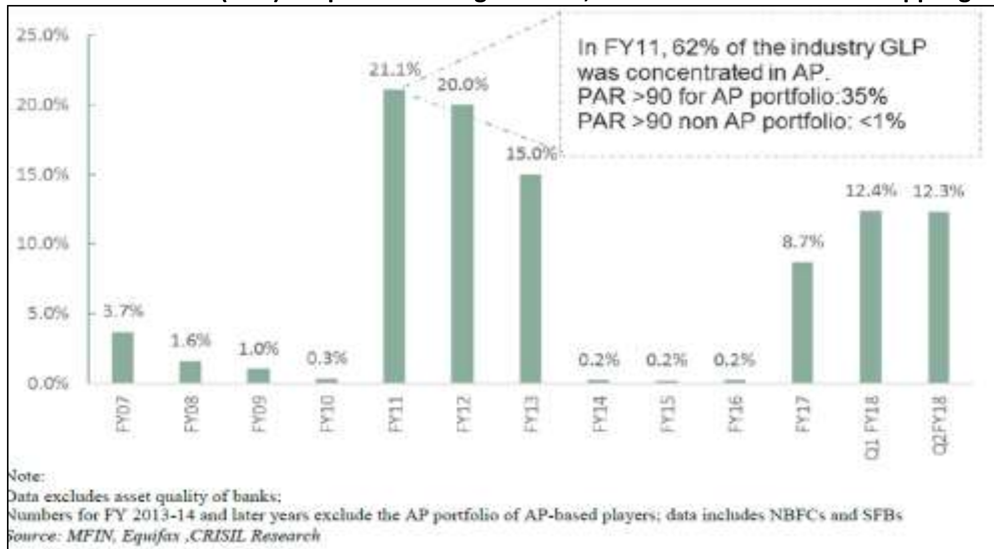


Disbursements grew 35% over the past 10 fiscal years



Source: CRISIL Research, MFIN, Bharat Microfinance

Portfolio at risk (PAR)>90 peaked during AP crisis; demonetization was less crippling



Note:
Data excludes asset quality of banks;
Numbers for FY 2013-14 and later years exclude the AP portfolio of AP-based players; data includes NBFCs and SFBs
Source: MFIN, Equifax ,CRISIL Research

National Farm loan waiver (2008)

Under the National Farm Loan Waiver (2008) scheme, loans worth Rs 525 billion which were disbursed by scheduled commercial banks, cooperative credit institutions, local area banks and regional rural banks between April 1, 1997 and March 31, 2007 to approximately 40 million farmers were waived by the Government of India. The national farm loan waiver in 2008 had a minimal impact on the overall MFI industry as it was in a high growth phase and penetration was low.

Small finance bank (SFB) licence granted to eight MFIs (2015)

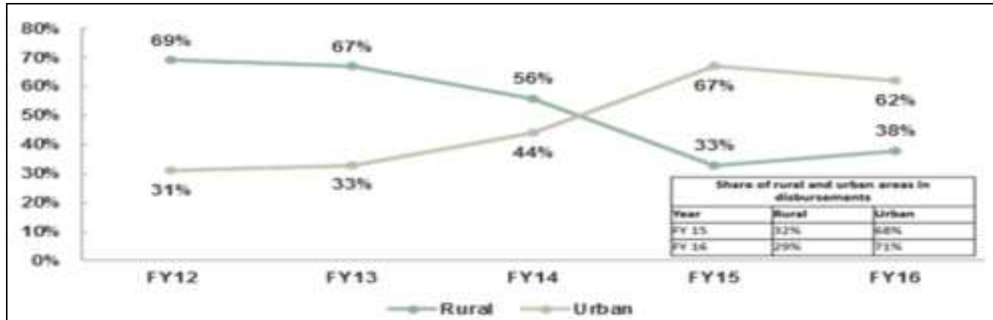
The RBI awarded in-principle SFB licences to 10 applicants on September 16, 2015, of which eight were MFIs. All the MFI applicants have received final approval from the RBI to start operations. These MFIs cumulatively accounted for approximately 42% of the total gross loan portfolio of the industry as of March 31, 2017. The MFIs that have converted into SFBs are expected to diversify and expand their loan book beyond micro finance loans by focusing on allied segments such as MSME loans, affordable housing finance, and two-wheeler loans. In fact, for SFBs as a whole, micro finance AUM growth was just around 5% as of June 2017, as compared to 26% for the NBFC-MFIs. Over the next couple of years, SFBs are expected to focus on gradually building up their banking business and complying with tougher regulatory norms. On the other hand, transformation into SFBs will provide access to stable and granular public deposits over the long run, which will bring down their cost of funds. However, SFBs are expected to face near-term challenges in getting deposits amid intense competition and maintaining profitability in the initial few years after transformation, which will provide an opportunity to NBFC-MFIs to capture the market further.

The Indian Microfinance Sector – Key Trends

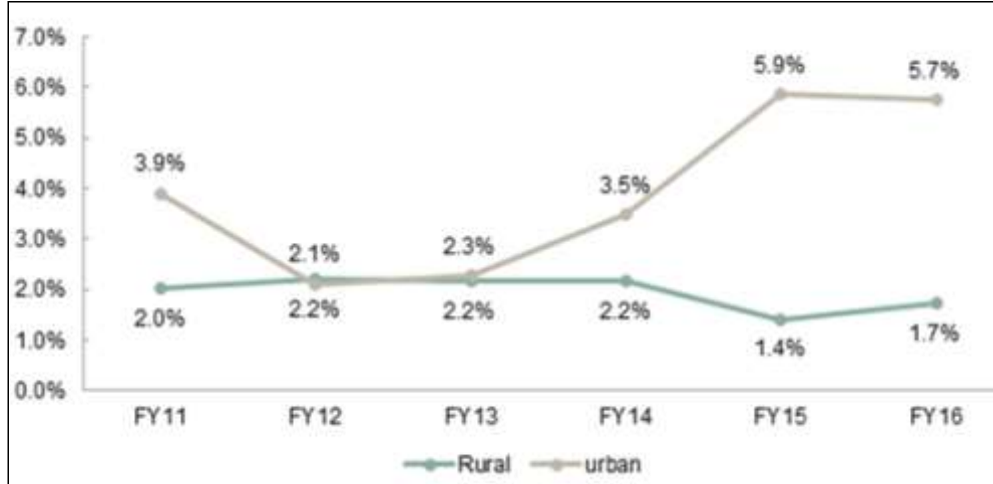
Rural areas account for less than 30% of MFI disbursements

The share of urban areas in microfinance loans has increased, as players increased focus on these areas, partly with a view to maintain profitability while complying with the margin-cap regulation put in place by the RBI. In 2015-16, only around 29% of MFI disbursements (data of 166 MFIs including SFBs from Bharat Microfinance Report 2016) were in the rural areas. In terms of number of clients too, the picture is not different. Over four years until 2014-15, the share of urban clients of MFIs rose sharply. In 2014-15, 33% of MFI clients were from rural areas, while in 2015-16, there was a slight improvement in the MFIs' share of client base in rural areas to 38%, due to the exclusion of Bandhan Financial Services. Due to stronger client additions, microfinance penetration in urban areas (calculated by dividing the number of urban MFI clients by the urban population) has increased in the past five years and stood at 5.6% as of March 2016. In contrast, rural penetration has come down and was at around 1.7%, as of the same timeframe. Due to low rural penetration, there is a huge opportunity available for MFIs players to grow their portfolios in rural areas. Given that rural contribution of GDP is almost as high as urban contribution and given that rural penetration is 1.7% as compared to urban penetration of 5.6%, CRISIL Research notes that the competitive intensity in rural areas is far lower than that in urban areas as indicated by the fact that only 30% of disbursements are made to customers in rural areas.

Share of rural and urban clients



Rural penetration is much lower than urban penetration in the microfinance industry



Over four years until fiscal year 2014-15, the share of urban clients of MFIs has increased. Microfinance players have gained popularity among urban borrowers, being the only source of non-collateralised loans. High density of population in urban areas presents opportunity for higher growth, which some MFIs have capitalised on, increasing their footprint in urban areas. There is also a slight improvement in MFIs' share of client base in rural areas, to 38% in fiscal year 2015-16 due to the exclusion of Bandhan Financial Services.

Microfinance companies offer loans to borrowers for both consumption and productive purposes. In 2011, the RBI regulations stipulated that a minimum of 70% of MFI loans had to be deployed for income generating activities, as lending towards non-income generating activities could result in people remaining trapped in a debt cycle. Agriculture and trading are major subsectors where income generation loans are deployed. Non-income generation loans are used for consumption, housing, education, water and sanitation, and health. The 70% floor towards income generation loans changed in 2015. As per the RBI's regulations in April 2015, a portion (i.e. a maximum of 50%) of the aggregate amount of loans may be extended for other purposes such as housing repairs, education, medical and other emergencies. However, the aggregate amount of loans given to a borrower for income generation should constitute at least 50% of the total amount of loans borrowed from the NBFC-MFI. A majority of loans issued by MFIs are meant for income-generating activities. Share of income-generating loans reduced from 91% in fiscal year 2012-13 to 80% in fiscal year 2013-14 and again increased to 94% in fiscal year 2015-16. Agriculture, animal husbandry and trading are the major income-generating activities for which MFIs grant loans.

Competitive dynamics

NBFC-MFIs have grown the fastest in the MFI industry

There are multiple players in the microfinance industry with varied organizational structure. The loan in the microfinance sector is given by banks, NBFCs-MFIs, other NBFCs, and non-profit organisations. Banks provide loans under the self-help group model, however they also give microfinance loans directly or through the business correspondents in order to meet their priority sector lending targets. As of March 31, 2017, the microfinance Industry has total loan portfolio of Rs 1,718 billion, of which NBFC-MFIs account for close to 20%.

Impact of SFBs converting into banks

CRISIL Research notes that companies turning into small finance banks (SFBs) will face major challenges in terms of meeting the stringent regulatory norms applicable to banks. Most companies which have acquired SFB licences have high foreign holdings but have to raise a large amount of domestic equity in order to reach the minimum domestic holding requirement applicable to a SFB. Also, players with SFB licences have to expand their overall reach by opening up new liability branches to garner deposits, hiring new staff and implementing technology to

streamline the overall process. Hence, the conversion into a SFB will increase their overall operating costs, even as credit costs remain elevated in the near term due to the adverse impact of demonetization on asset quality. Consequently, return on assets of SFB licensees are likely to stay subdued in the next two years. In the medium term, as players converting into banks will have to focus on liability side products in addition to diversifying their asset book, their business growth in the microfinance sector is likely to be slower. Consequently, other NBFC-MFI players may have a chance to take advantage of the situation to gain market share. In FY 2016 and FY 2017, all SFBs increased their average ticket size to focus on urban customers. Overall, the average ticket size grew at a 12% CAGR from FY 2012-13 to FY 2016-17.

Growth outlook for MFI industry

Industry size to grow at CAGR 16-18% in the next 2 years, driven by rising penetration

The GLP of MFIs grew at 51% CAGR from fiscal year 2012-13 to fiscal year 2016-17. This growth was fuelled by the growth in GLP of some large players, such as Janalakshmi Microfinance, Bharat Financial Inclusion Ltd, Ujjivan Financial Services and CreditAccess Grameen Limited. CRISIL Research notes that the opportunity to capture market share from unorganized lenders will continue to drive MFI industry growth in the future. MFIs may be able to expand their portfolio by servicing areas that are least penetrated and where unorganised moneylenders are predominantly present.

Growth in client base and average ticket size to drive MFI loan portfolio

Client reach increasing with financial inclusion, industry client base to widen to 52 million

Increased focus on financial inclusion and the shift of borrowers from unorganised to organised sector for loans increased the industry client base from 13 million to 39 million between fiscals 2013 and 2017, recording a 31% CAGR. Of the total borrowers, the share of number of clients with more than one outstanding loans has increased from 20% in March 2016 to 27% as of September 2017. CRISIL Research notes that the number of borrowers are expected to increase at a pace of 15% annually over the next two years on account of increasing penetration of microfinance in some low-penetrated areas where the unorganised segment still plays a major role.

Joint lending group (JLG) model in the MFI space

MFIs focus on the JLG model when lending to borrowers, whereas banks have a dominant presence in the self-help group (SHG) model through their self-help group–bank linkage programme (SHG-BLP). Under the JLG lending model, the primary task is to identify a prospective village, based on parameters such as total population, total income, and population of poor individuals. Subsequently, potential members (usually women) are identified, based on factors such as the total household income and number of members in the household. These candidates are then organised into groups of 5-7 members each and 3-5 such groups come together to form a center, and the amount is lent to an individual borrower. In the event that an individual borrower defaults on payment, the concept of social collateral comes into play, and the other group members repay the loan amount due. In case of a default, the group is blacklisted and deemed ineligible to receive further loans from any MFI. This model is intended to ensure that the individual borrower is subject to constant peer pressure that urges him or her to make timely repayments. Under the JLF model, at least 90% of group members need to be present during loan disbursal.

Level of portfolio at risk to improve supported by better collection rate and write-offs

PAR, the primary indicator of risk for the sector, equals the percentage of loans overdue. PAR value increased sharply in fiscal year 2016-17 due to non-availability of cash and slowdown in business activities of individuals after demonetization. Due to demonetization, the RBI had given relaxation to NBFC-MFIs in terms of classification of GNPAs, but this was misinterpreted as a waiver given to customers for the same period. According to CRISIL Research, this misinterpretation of the RBI leeway on recognition of GNPAs to financiers as well as loan waiver and political intervention in some states also led to lower collections. However, MFIs have invested significantly in educating borrowers and helping them exchange their old notes, which has helped improve collection efficiency. PAR ratio has started to move down post March 2017; however, due to lower collections from old loans impacted by demonetization, credit costs are expected to increase significantly in

fiscal year 2018. Over the next 2-3 years, CRISIL Research expects the PAR levels for the industry to improve as the impact of demonetization fades and players write off some of the loans. Therefore, CRISIL Research notes that credit costs are also likely to come down following the fiscal year 2018 provided no major events impacting the industry during this period. The implementation of the RBI guidelines on lending and greater co-operation amongst MFIs players in sharing data with credit bureaus partly limit the risk of over-leveraging of borrowers. The credit bureau data presently does not capture loans provided to borrowers through the SHG-BLP and on-book lending by banks through business correspondents. Therefore, over-leveraging of borrowers remains a key concern.

Nevertheless, inherent strengths of the operating model such as peer pressure exerted by the JLG and regular engagement with borrowers, and enhanced usage of technology in portfolio monitoring and tracking are expected to ensure that asset quality remains under control despite rapid growth. Also the latest norm under which the customers have to provide their Aadhaar number to avail loans from MFIs will help to address the issue of over-indebtedness and provide a mechanism to reduce the risk of default as customer tracking will be easier. However, it is imperative for MFIs to continuously ramp up investments in people, processes, and systems to manage risks and maintain asset quality.

Key Concerns

Operations are concentrated in Karnataka and Maharashtra and any adverse developments in these states could have an adverse effect on its business, results of operations, financial condition and cash flows: As of March 31, 2018 CAGL conducted its operations through 516 branches in India, of which 191 branches were located in Karnataka and 144 branches were located in Maharashtra. As of March 31, 2018, 58.08% of its Gross AUM originated in Karnataka and 26.73% of its Gross AUM originated in Maharashtra. In the event of a regional slowdown in the economic activity in these states, or any other developments including political unrest, disruption or sustained economic downturn that make its products in these states less beneficial, it may experience an adverse impact on its financial condition and results of operations, which are largely dependent on the performance and other prevailing conditions affecting the economies of these states.

Microfinance loans are unsecured and are susceptible to various operational and credit risks: The focus customer segment for CAGL's micro-loan is women with an annual household income of Rs160,000 or less in Urban Areas and Rs100,000 or less in Rural Areas (as required under the Master Directions). Its customers typically has limited sources of income, savings and credit histories and as a result, are usually adversely affected by declining economic conditions. Further, its JLG Customers do not provide any collateral or security for their borrowings as the RBI has mandated that loans given by NBFC-MFIs should be collateral free for the purpose of "Qualifying Assets". Such customers generally do not a high level of financial resilience, and, as a result, they can be adversely affected by declining economic conditions and natural calamities such as floods or droughts. Due to the underlying profile of CAGL's Customers, it may, in the future, experience increased levels of non-performing assets and related provisions and write-offs, which would materially and adversely impact its business and results of operations. CAGL cannot be assured that its risk management policies will continue to be sufficient or that additional risk management policies for individual borrowers will not be required. Failure to maintain sufficient credit assessment and risk management policies could adversely affect CAGL's credit portfolio, which could have a material and adverse effect on its business, results of operations and financial condition.

An increase in portfolio of non-performing assets and/ or provisions may materially and adversely affect CAGL's business and results of operations: CAGL's management of credit risk involves having appropriate credit policies, underwriting standards, approval processes, loan portfolio monitoring, collection and remedial management, provisioning policies and an overall architecture for managing credit risk. If the credit quality of CAGl's Customers, the growth of its loan portfolio or its provisioning levels deteriorate, it could have an adverse effect on its business, results of operations and financial condition. Further, CAGL's credit monitoring and risk management policies and procedures may not be accurate, properly designed, or appropriately implemented or complied with by its Customers, and could suffer material credit losses. In addition, even if CAGL's policies and procedures are accurate and appropriate, it may not be able to anticipate future economic or financial developments or downturns, which could lead to an increase in its NPAs. In addition to the relevant minimum regulatory provision, it also consider its internal estimates for loan losses and risks inherent in the loan portfolio when deciding on the appropriate level of provisioning. The determination of an appropriate level of loan losses and provisions involves a degree of subjectivity and requires that CAGL's make estimates of current credit risks, all of which may be subject to material changes. Any incorrect estimation of risks may result in its provisions not being adequate to cover any further increase in the amount of NPAs or any further deterioration in its NPA portfolio.

If CAGL is unable to manage its growth effectively, its financial, accounting, administrative, operational and technology infrastructure, as well as its business and reputation could be adversely affected*:* CAGL's business has experienced rapid growth over the past few years. Its network of branches and customers in India has expanded significantly from 238 branches servicing 0.92 million Customers as of March 31, 2015 to 516 branches servicing approximately 2.19 million Customers, as of March 31, 2018. Further, it has also expanded the number of loan categories that it provide to its customers, commencing initially from pure-play income generation loans to additional loan categories such as family welfare, home improvement, emergency loans, individual retail finance and two-wheeler loans. As part of its growth strategy, CAGL's expect the contiguous expansion of its geographic footprint and network of branches to continue, which may further constrain its

capital and human resources, and make asset quality management increasingly important. As it move to newer geographies, it may not be able to maintain the level of its NPAs or the quality of its portfolio. CAGL will need to continue to enhance and improve its financial, accounting, information technology, administrative/ risk management and operational infrastructure and internal capabilities in order to manage the future growth of its business effectively. CAGL may not be able to implement the necessary improvements in a timely manner, or at all, and it may encounter deficiencies in existing systems and controls. If it is unable to manage its future expansion successfully, its ability to provide products and services to its customers would be adversely affected, and, as a result, CAGL's reputation could be damaged, and its business and results of operations materially and adversely impacted.

Business is particularly vulnerable to interest rate risk, and volatility in interest rates could have a material adverse effect on net interest income, net interest margin and financial performance*:* CAGL's results of operations depend to a large extent on the level of its net interest income as its primary revenue source is interest income. Net interest income is the difference between its revenue from operations and its finance costs. The differential between the interest rates that CAGL charge on interest-earning assets (i.e. its portfolio loans) and the interest rates that it pay on interest-bearing liabilities, and the volume of such assets and liabilities, tend to have a significant impact on its results of operations. An increase in interest rates could result in an increase in interest expense relative to interest income if CAGL is not able to increase the rates charged on its portfolio loans and advances or if the volume of its interest-bearing liabilities is larger or growing faster than the volume of its interest earning assets. Further, such increase in interest rates could impact its ability to raise low cost funds as compared to some of its competitors which may have access to lower cost deposits. Interest rates are highly sensitive, and fluctuations thereof are dependent upon many factors which are beyond CAGL's control, including the monetary policies of the RBI, de-regulation of the financial services sector in India, domestic as well as international economic and political conditions, inflation and other factors. Interest rates in India has been volatile in the past. There can be no assurance that it would be able to adequately manage its interest rate risks. If CAGL is unable to effectively manage its interest rate risks, it could have an adverse effect on its net interest income, net interest margin, thereby impacting its business prospects, financial condition and results of operations.

Any downgrade of CAGL's credit ratings may increase its borrowing costs and constrain its access to capital and debt markets and, as a result, may adversely affect its net interest margin and its results of operations*:* The cost and availability of funds is dependent, among other factors, on CAGL's short-term and long-term credit ratings. Credit ratings reflect a rating agency's opinion of its financial strength, operating performance, industry position, and ability to meet its obligations. Any future performance issues for CAGL or the industry may result in a downgrade of its credit ratings, which may in turn lead to an increase in its borrowing costs and constrain its access to capital and debt markets and, as a result, may adversely affect CAGL's net interest income and net interest margin. In addition, any downgrade of its credit ratings could result in additional terms and conditions being included in any additional financing or refinancing arrangements in the future.

CAGL's is subject to certain conditions and restrictions in terms of its financing arrangements, which could restrict the ability to conduct business and operations in the manner it desire: As of March 31, 2018, CAGL had total current and non-current borrowings aggregating to Rs36,028.61 million, comprising of non-current long-term borrowings amounting to Rs14,800.02 million and current maturities of long term borrowings amounting to Rs21,228.59 million. Incurring indebtedness is a direct consequence of the nature of its business, and having large outstanding borrowings portfolio may have significant implications on CAGL's business and results of operations, including

- low availability of cash flow for working capital, capital expenditures and other general corporate requirements;
- fluctuations in market interest rates may affect the cost of the borrowings, as CAGL's indebtedness is at variable interest rates;
- affecting ability to obtain additional financing in the future at reasonable terms;
- triggering provisions of cross-default across multiple financing arrangements;
- adverse and onerous implications (including limitations to the use of funds in the relevant facility) in the event of inability to comply with financial and other covenants specified in the financing agreements;
- the right to recall loans by its lenders; and
- reduction in the ability to respond to changing business, regulatory and economic conditions.

CAGL's inability to comply with the conditions prescribed under the financing arrangements, or repay the loans as per the repayment schedule, may have an adverse impact on its credit rating, business operations and future financial performance. Further, if CAGL is unable to service its existing debt, its ability to raise debt in the future will be adversely affected, which will have a significant adverse effect on its results of operations, financial condition and its business.

There can be no assurance that CAGL will be able to access capital as and when needed for growth*:* CAGL's liquidity and profitability are, in large part, dependent upon timely access to capital and costs associated with raising capital. Its funding requirements has historically been met from a combination of term loans, working capital facilities, assignment or securitization of its portfolio to banks and financial institutions, proceeds from issuance of convertible and non-convertible debentures, subordinated debt as well as equity contributions. Any

change in the RBI regulations on priority sector lending, or CAGL's inability to maintain relationships with such banks and financing institutions could adversely affect its business, results of operations and financial condition. Its business depends and will continue to depend on its ability to access diversified low-cost funding sources. As a financial services company, CAGL face certain additional regulatory restrictions on its ability to obtain financing from banks. If it is unable to access the necessary amounts of additional capital, for meeting incremental capital requirement, it may adversely impact its ability to grow its overall business and may even require to curtail or withdraw from some of its current business operations. CAGL's ability to raise funds on acceptable terms and at competitive rates continues to depend on various factors, including the regulatory environment and policy initiatives in India, liquidity in the market, developments in the international markets affecting the Indian economy, investors' and/ or lenders' perception of demand for debt and equity securities of NBFCs and MFIs, and its current and future results of operations and financial condition. There can also be no assurance that it would be able to raise adequate additional capital in the future on terms favourable to it, or at all, and this may hamper and adversely impact its growth plans.

Any failure or material weakness of internal control systems could cause significant operational errors, which would materially and adversely affect the profitability and reputation*:* CAGL is responsible for establishing and maintaining adequate internal measures commensurate with the size and the complexity of its operations. Its internal or concurrent audit functions are equipped to make an independent and objective evaluation of the adequacy and effectiveness of internal controls on an ongoing basis to ensure that business personnel adhere to its policies, compliance requirements and internal circular guidelines. While it periodically test and update its internal control systems as necessary, it is exposed to operational risks arising from the potential inadequacy or failure of internal processes or systems, and its actions may not be sufficient to guarantee effective internal controls in all circumstances. In addition, CAGL carry out certain processes manually, which may increase the risk that human error, tampering or manipulation will result in losses that may be difficult to detect. As a result, it may suffer material losses. Such instances may also adversely affect its reputation, thereby adversely impacting its business, results of operations and financial condition.

Competition from banks and financial institutions, as well as state-sponsored social programs, may adversely affect the profitability and position in the Indian microcredit lending industry*:* CAGL face significant competition from other MFIs and banks in India (including SFBs). Many of the institutions with which it compete may be larger in terms of business volume or may have greater assets, higher geographical penetration and better access to, and lower cost of, funding than it do. In certain areas, they may also have better brand recognition and larger customer bases than CAGL. It anticipate that it may encounter greater competition as it continue expanding its operations in India, and this may result in an adverse effect on its business, results of operations and financial condition. Traditional commercial banks as well as regional rural and cooperative banks, has generally not directly targeted the lower income segments of the population for new customers. However, some banks do participate in microfinance by financing the loan programs of self-help groups often in partnership with NGOs, or through certain state-sponsored social programs. Further, most small finance banks which received approval from the RBI for the commencement of SFB operations are focused on low and middle-income individuals and micro, small and medium enterprises. Banks also indirectly participate in microfinance by giving loans and providing other sources of funding to other MFIs. In addition, of late, some commercial banks are also beginning to directly compete with for-profit MFIs for lower income segment customers in certain geographies.

Depend on the accuracy and completeness of information about customers and counterparties for credit assessment and risk management*:* In deciding whether or not to extend credit or enter into other transactions with customers, CAGL rely on information furnished to it by or on behalf of customers. It may also rely on certain representations from its Customers as to the accuracy and completeness of that information. To ascertain the creditworthiness of potential borrowers, it may depend on credit information companies or credit bureaus, and its reliance on any misleading information may affect its judgement of credit worthiness of potential borrowers, which may affect CAGL's business, prospects, results of operations and financial condition. It may receive inaccurate or incomplete information as a result of negligence or fraudulent misrepresentation. Moreover, the availability of accurate and comprehensive credit information of its focus customer segment in India is limited, which reduces CAGL's ability to accurately assess the credit risk associated with such lending. Difficulties in assessing credit risks associated with its day-to-day lending operations may lead to an increase in the level of its NPAs, which could materially and adversely affect its business prospects, financial condition and results of operations.

Require various statutory and regulatory approvals, licenses, registrations and permissions to conduct business: CAGL require various approvals, licenses, registrations and permissions to operate its business, including a registration for the Company with the RBI as an NBFC-MFI as well as various other corporate actions. It is also required to comply with the prescribed requirements, including classification of NPAs and provisioning, KYC requirements, qualifying assets and other internal control mechanisms. In future, it will be required to maintain such permits and approvals and obtain new permits and approvals for any proposed expansion strategy or diversification into additional business lines or new financial products. There can be no assurance that the relevant authorities will issue any of such permits or approvals in a timely manner, or at all, and/ or on favourable terms and conditions. Its failure to comply with the terms and conditions of such permits or approvals and/ or to maintain or obtain the required permits or approvals may result in an interruption of its business operations and may have a material adverse effect on its business operations, future financial performance and price of its Equity Shares.

Depend on brand recognition, and failure to maintain and enhance awareness of brand would adversely affect the ability to retain and expand customer base*:* Any damage to CAGL's reputation could substantially impair its reputation and its ability to maintain or grow business, or have a material adverse effect on its overall business, financial condition and results of operations. If CAGL fails to maintain brand recognition with its target customers due to any issues with its product offerings, a deterioration in service quality, or otherwise, or if any premium in value attributed to its business or to the brands under which services are provided declines, market perception and customer acceptance of its brands may also decline. Any negative news affecting CAGL might also affect its reputation and brand value. In such an event, it may not be able to compete for customers effectively, and its business, financial condition and results of operations may be adversely affected. In addition, it also face the risk of its brand name being misused for fraudulent purposes, which may adversely affect its reputation.

Success depends, in large part, upon management team and skilled personnel and on ability to attract and retain such persons: CAGL is highly dependent on the continued services of its management team, including its MD & CEO. It is also dependent on its experienced members of its Board of Directors and Key Management Personnel. Its future performance is dependent on the continued service of these persons. The RBI also mandates NBFCs to have in place supervisory standards to ensure that their directors has appropriate qualifications, technical expertise and a sound track record, and such requirements will make it more difficult for CAGL to replace its directors if and when it has to. It may not be able to replace its Board of Directors with similarly experienced professionals, which could materially and adversely impact the quality of its management and leadership team.

Business is subject to seasonality, which may contribute to fluctuations in its results of operations and financial condition: CAGL's business is subject to seasonality as it typically see higher borrowings by its customers during the third and fourth quarter of each financial year. It also typically has higher drawdowns under its facilities in the third and fourth quarter of each financial year. Accordingly, its results of operations in one quarter may not accurately reflect the trends for the entire financial year and may not be comparable with its results of operations for other quarters.

CAGL is subject to macro-economic developments and other market factors, and its results of operations may fluctuate or decline from period to period*:* CAGL's business is subject to a number of macro-economic factors that are outside of its control, including GDP growth, inflation, fiscal deficits, international and domestic political and economic conditions, fiscal and monetary policies of governments and central banks, and changes in interest rates, which may adversely impact it from time to time. As a result of the volatility of these macro-economic factors, including interest rates; and provisions it make from period to period for NPAs and other assets, commitments and contingencies (such as for letters of credit and bank guarantees), its results of operations has varied from period to period in the past and may fluctuate or decline in the future due to these and other factors. Such fluctuations may also adversely affect CAGL's liquidity. These factors may also make period-to-period comparisons of its operating results less meaningful than they would be for a business that is not as significantly affected by such factors. Any adverse development in India or global macroeconomic conditions could have a material adverse effect on its business, financial condition, results of operations or prospects.

CAGL may not be able to recover the expected value from the instruments collected from its Customers and/ or the sale of collateral security, in the case of defaults in its individual retail finance loan portfolio: CAGL's two-wheeler loans (which are individual retail finance loans) are typically secured by creating a charge over the vehicles purchased by its borrowers. It also collect NACH authorisation letters from its Customers at the time of disbursement of such loans. However, there can be no assurance that these instruments would be honoured when submitted to the respective banks for clearance. There can also be no assurance that it would be able to successfully retrieve payments due to it. Further, there can be no assurance that CAGL would be able to sell such vehicles provided as collateral at prices sufficient to cover the amounts under default. Failure to recover or delay in recovering the expected value from sale of collateral security for its retail loans could expose it to potential losses, which could affect the business prospects, financial condition and results of operations.

CAGL handles cash in a high volume of transactions occurring through a dispersed network of branches; as a result, it is exposed to operational risks, including fraud, petty theft and embezzlement, which could harm the results of operations and financial position*:* As CAGL handle a large amount of cash through a high volume of transactions taking place across its branch network, it is exposed to the risk of fraud or other misconduct by employees or outsiders. This risk is further exacerbated by the high level of autonomy on the part of its loan officers and back-end managers, which its business model requires. Given the high volume of transactions CAGL process on a daily basis, certain instances of fraud and misconduct may go unnoticed or may only be discovered and successfully rectified after substantial delays. Even when it discover such instances of fraud or theft and pursue them to the full extent of the law or with its insurance carriers, there can be no assurance that it will recover any of the amounts involved in these cases. Its reputation could be adversely affected by fraud committed by employees, customers or outsiders, or by its perceived inability to properly manage fraud-related risks. In addition, its dependence upon automated systems to record and process transactions may further increase the risk that technical system flaws or employee tampering or manipulation of those systems will result in losses that are difficult to detect.

Any deterioration in the performance of any pool of receivables assigned or securitized to banks and other institutions may adversely impact the financial performance: CAGL may in the ordinary course of business to obtain improve liquidity and minimize risks, assign or securitize a portion of its receivables from loan portfolio to banks and NBFCs. Such securitization/ assignment transactions are undertaken by CAGl on the basis of its internal estimates of funding requirements, and may vary from time to time. However, in the event the bank or NBFC does not realise the receivables due under loans that have been securitized/ assigned, the relevant bank or NBFC can enforce the underlying credit enhancements assured by it. Further, any deterioration in the performance of any batch of receivables assigned to banks and NBFCs could adversely affect its credibility and therefore ability to conduct further assignments and securitizations. CAGL may also be named as a party in legal proceedings initiated by an assignee in relation to the securitized assets. Should a substantial portion of its securitized/ assigned loans be put back to it, it could have an adverse effect on its financial condition and results of operations.

CAGL's results of operations could be adversely affected as a result of any disputes with its employees*:* CAGL's operations are personnel-driven, and it place a lot of emphasis on the effective training of its personnel in communication and service orientation skills. However, a failure to train and motivate its employees may lead to an increase in its employee attrition rates, erode the quality of customer service, divert management resources and impose significant costs on it which may have an adverse impact on its business and future financial performance. Further, in the event of a labour dispute, protracted negotiations and strike action may impair CAGL's ability to carry on its day-to-day operations, which could materially and adversely affect its business, future financial performance and results of operations.

The rise of digital platforms and payment solutions may adversely impact the business model and there may be disintermediation in the loan market by fintech companies*:* Disruption from digital platforms could have an adverse effect on CAGL's business model and the success of its products and services that it offers to its customers. It face threats to its business from newer business models that leverage technology to bring together savers and borrowers. It may not be competitive in facing up to the challenges from such newer entrants. This may, accordingly, have an adverse impact on its business and growth strategy.

CAGL may undertake strategic investments or divestments, acquisitions and joint ventures, which may not perform in line with expectations*:* CAGL may, depending on its management's view and market conditions, pursue strategic investments or divestments, undertake acquisitions and enter into joint ventures. It may in the future enter into various acquisitions including the acquisition of certain portfolios or accounts, in its entirety or part thereof, from other banks, NBFCs or other financial institutions. Since it may only be able to undertake limited diligence on the security and collateral of such acquired accounts, there are no assurances that the asset quality, creditworthiness of such borrowers or the security and collateral provided under these portfolios and accounts are of a similar level to its existing borrowers, portfolios or accounts. This may result in difficulties should any of such portfolios or accounts enter into default, which might materially and adversely affect CAGL's business, financial condition and results of operations. It may have future plans to be involved in new businesses, including complementary businesses, services and products, and it may enter into strategic partnerships or joint ventures with parties that can provide access to new markets, technology, capabilities or assets. Its management may also need to divert its attention from its operations in order to integrate such new businesses, which may affect the quality of operational standards and CAGL's ability to retain the business of its existing customers. It could also have difficulty in integrating the acquired products, services, solutions, technologies, management and employees into its operations. CAGL may face litigation or other claims arising out of its new businesses, including disputes with regards to additional payments or other closing adjustments. These difficulties could disrupt its ongoing business, distract its management and employees, and increase its expenses. As a result, CAGL's business, financial condition and results of operations could be materially adversely affected.

Operates in a highly regulated environment*:* CAGL operates in a highly regulated environment in which it is regulated by the RBI, PFRDA, the MCA, the Registrar of Companies and other domestic and international regulators. Accordingly, legal and regulatory risks are inherent and substantial in its businesses. As it operates under licences or registrations obtained from appropriate regulators, it is subject to actions that may be taken by such regulators in the event of any non-compliance with any applicable policies, guidelines, circular, notifications and regulations issued by the relevant regulators. Any change to the existing legal or regulatory framework will require CAGL to allocate additional resources, which may increase its regulatory compliance costs and direct management attention and consequently affect its business.

In order to support and grow business, CAGL must maintain a minimum capital to risk weighted assets ratio, and a lack of access to the capital markets may prevent it from maintaining an adequate ratio*:* As an NBFC-MFI, the RBI requires CAGL to maintain a minimum capital to risk weighted assets ratio ("CRAR") consisting of Tier I and Tier II capital of 15% of its aggregate risk weighted assets. Further, the total of its Tier II capital cannot exceed 100% of its Tier I capital at any point of time. Its ability to support and grow its business would become limited if the CRAR is low. While it may access the capital markets to offset any declines to its CRAR, it may be unable to access the markets at the appropriate time or the terms of any such financing may be unattractive due to various reasons attributable to changes in the general environment, including political, legal and economic conditions. As CAGL continue to grow its loan portfolio and asset base, it will be required to raise additional Tier I and Tier II capital in order to continue to meet applicable CRAR with respect to its business. There can be

no assurance that it will be able to raise adequate additional capital in the future on terms favourable to it, and this may adversely affect the growth of its business. If CAGL is unable to meet any existing or new and revised requirements, its business, future financial performance and the price of its Equity Shares could be adversely affected.

India's existing credit information infrastructure may cause increased risks of loan defaults*:* All of CAGL's business is located in India. India's existing credit information infrastructure may pose problems and difficulties in running a robust credit check on its borrowers. It may also face difficulties in the due diligence process relating to its customers or to any security or collateral it take in relation to its loans. It may not be able to run comprehensive searches relating to the security and there are no assurances that any searches it undertake will be accurate or reliable. Hence, overall credit analysis could be less robust as compared to similar transactions in more developed economies. Any inability to undertake a comprehensive due diligence or credit check might result in an increase in CAGL'sr NPAs and it may have to increase its provisions correspondingly. Any of the foregoing may have a material adverse effect on its business, financial condition and results of operations.

Profit & Loss — Rs in million

Particulars	FY18	FY17	FY16
Revenue From Operations	8655.5	7017.5	4569.5
Other Income	96.5	75.2	97.7
Total Income	8752.1	7092.6	4667.2
Total Expenditure	3226.1	2639.9	1263.2
Employee Benefits Expense	1272.1	1046.9	706.7
Provision and write-offs	1281.2	1086.0	140.2
Other Expenses	672.9	507.0	416.4
PBIDT	5526.0	4452.7	3404.0
Interest	3545.7	3165.4	2082.5
PBDT	1980.3	1287.3	1321.5
Depreciation	51.7	44.3	26.1
PBT	1928.6	1243.0	1295.4
Tax (incl. DT & FBT)	682.2	440.0	463.0
Current tax	552.7	813.3	513.8
Short / (Excess) Provision for earlier years	0.4	1.3	0.0
Deferred Tax	129.1	-374.6	-50.8
PAT	1246.4	803.0	832.4
EPS (Rs.)	9.71	9.37	11.41
Equity	1284.3	856.8	729.5
Face Value	10.0	10.0	10.0
OPM (%)	62.7	62.4	72.4
PATM (%)	14.4	11.4	18.2

Balance Sheet: — Rs in million

Particulars	FY18	FY17	FY16
EQUITY AND LIABILITIES			
EQUITY	**14278.9**	**6908.0**	**4598.8**
Equity Share Capital	1284.3	856.8	729.5
Reserves and surplus	12994.6	6051.2	3869.2
NON CURRENT LIABILITIES			
Long-term borrowings	14800.0	11758.8	11221.5
Long-term provisions	1006.2	307.2	107.5
Total NON CURRENT LIABILITIES	**15806.2**	**12066.1**	**11329.0**
CURRENT LIABILITIES			
Short-term borrowings	0.0	0.0	200.0
Other current liabilities	22044.4	15494.2	11744.6
Short-term provisions	54.0	1172.5	207.4
Total CURRENT LIABILITIES	22098.4	16666.7	12152.0
Total Equity & Liabilities	**52183.5**	**35640.7**	**28079.8**

ASSETS			
NON CURRENT ASSETS			
Property, Plant And Equipment	94.8	59.8	53.2
Capital Work In Progress	0.0	7.0	0.0
Intangible assets	66.8	62.8	60.2
Intangible assets under development	10.6	23.3	0.0
Non-current investments	2.0	2.0	2.0
Loans and advances	15900.3	6376.2	7712.3
Deferred tax assets	355.8	484.9	110.3
Other non current assets	55.5	119.6	392.4
Total Non Current Assets	**16485.8**	**7135.6**	**8330.3**
CURRENT ASSETS			
Other bank balances	1381.5	3636.9	2549.2
Loans and advance	34096.9	24514.5	17041.6
Other current assets	219.2	353.7	158.6
Total Current Assets	**35697.6**	**28505.1**	**19749.4**
TOTAL ASSETS	**52183.5**	**35640.7**	**28079.8**

The following table sets forth key financial and operational metrics as of or for the periods indicated:

Particular	FY18	FY17	FY16	FY15	FY14
Gross AUM	49,746.6	30,754.4	25,387.8	14,470.7	8,095.2
Gross AUM Growth (%)	61.8	21.1	75.4	78.8	54.5
Disbursements	60,817.2	34,026.3	33,488.5	18,939.1	10,280.9
Disbursement Growth	78.7%	1.6%	76.8%	84.2%	69.5%
Customers	2,187,174	1,653,611	1,386,588	923,018	568,958
Active Customers	1,851,324	1,450,298	1,196,389	844,585	504,688
Number of Total Active Loan Accounts	3,190,543	2,863,379	2,669,226	1,877,069	1,036,982
Revenue from operations	8,655.5	7,017.5	4,569.5	2,681.6	1,423.4
Interest Expense and Other Borrowing Costs	3,545.7	3,165.4	2,082.5	1,290.5	722.5
Net Interest Income	5,109.9	3,852.0	2,487.0	1,391.1	700.8
Annual Average Gross AUM	40,250.5	28,071.1	19,929.2	11,282.9	6,667.1
Net Interest Margin = Net Interest Income / Annual Average Gross AUM	12.7%	13.7%	12.5%	12.3%	10.5%
Operating Expense	1,996.6	1,598.2	1,149.1	706.2	450.5
Operating Expense / Annual Average Gross AUM	5.0%	5.7%	5.8%	6.3%	6.8%
Credit Cost	1,281.2	1,086.0	140.2	68.4	57.3
Credit Cost / Annual Average Gross AUM	3.2%	3.9%	0.7%	0.6%	0.9%
Profit after tax	1,246.4	803.0	832.4	487.3	166.3
Gross NPA	980.9	25.8	19.8	4.9	0.8
Gross NPA Ratio	2.0%	0.1%	0.1%	0.0%	0.0%
Net Worth	14,270.8	6,904.1	4,592.4	3,755.0	2,061.4

(Rs in million, except percentages and number of Total Active Loan Accounts)

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