

Equity Research

June 1, 2020
BSE Sensex: 33304

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Financials

Q4FY20 result review

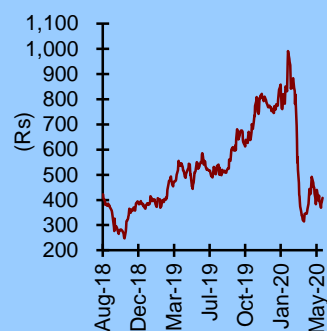
Target price: Rs585

Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	80.1	80.0	79.9
Institutional investors	14.4	14.1	14.3
MFs and others	6.6	5.3	5.7
FII	7.8	8.8	8.6
Others	5.5	5.9	5.8

Source: BSE

Price chart



Listed on 22-08-2018

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INDIA



CreditAccess Grameen

Near-term focus on resuming collections

BUY
Maintain
Rs411

CreditAccess Grameen's (CAGL) Q4FY20 result is characterised by two key events: a) completion of first phase of Madura acquisition (~76%) and b) proactive building of Covid-19-related contingency provision of ~Rs0.8bn (87bps of loans). Key highlights of the quarter: 1) strong 38%/17% YoY growth in AuM/borrowers; 2) ~40bps decline in cost of borrowing to 9.6% (marginal cost of borrowing is lower by ~50bps at 9.1%) even in a most challenging quarter; 3) GNPA increase to 1.57% (0.85% in Q3FY20); and 4) ~70% YoY decline in standalone PAT to Rs228mn due to merger-related expenses (Rs150mn) and elevated credit cost due to Covid-19. Though the merger brings in synergy, decline in consolidated CAR to 23.6% (post acquisition) and Madura's high concentration in Tamil Nadu (most districts in red zone) poses near-term risk. However, strong execution track record, weekly collection model, customer profile (~35-40% unique and ~75% >1 year) and ability to raise funds at competitive rates, would ensure CAGL navigating the current challenging phase relatively better than peers and emerging stronger in post Covid-19 era. Maintain BUY with a target price of Rs585.

- **Resumption of business operations (collection/disbursement) from 1st Jun'20 is positive.** Given significant relaxation of the lockdown for movement of people, resumption of economic activities in green/orange zones and customer inclination to repay to avoid increased interest cost, CAGL is geared to restart business operations from 1st June'20. Currently, ~98% of branches are opened with 90% staff. With more than 80% of customers engaged in essential activities, facing limited impact of lockdown, it expects collection efficiency to remain around ~70% in Jun'20.
- **Strong liquidity position; ability to raise funds at competitive rate.** CAGL's cost of borrowing fell 40bps QoQ to 9.6% even in a most challenging quarter in terms of raising money, which reflects its ability to raise funds at most competitive rates. Lower marginal cost of borrowing in Q4FY20 at 9.1% would ensure margins sustaining at current level, if not improving, in FY21E. CAGL was granted moratorium for 65% of its bank loans in first phase and the same moratorium is expected in second phase. With it focusing on resuming collection (expected collection of ~Rs7.4bn in Jun'20) and cumulative sanction/applications of ~Rs20bn till Aug'20, we believe CAGL is well placed to sail through the current liquidity cycle relatively better than peers.
- **AUM growth remains strong in a challenging period.** While CAGL continues to deliver industry-leading AUM growth at 38% YoY, driven by 17% YoY growth in customer acquisition, acquisition of Madura added ~21% to total AuM as at Mar'20. Significantly lower ticket size of Madura's customer is likely to ensure revival of AuM growth quicker than peers. Standalone retail finance book now constitutes 5% of total AUM. Management appears confident of reviving growth given its comfortable liquidity position and ability to raise funds at competitive rates coupled with deep rural distribution network.

Market Cap	Rs58.9bn/US\$780mn	Year to Mar	FY19	FY20	FY21E	FY22E
Bloomberg	CREDAG IN	NII (Rs bn)	8.6	11.2	13.7	17.3
Shares Outstanding (mn)	144.0	Net Profit (Rs bn)	3.2	3.4	3.3	6.2
52-week Range (Rs)	992/314	EPS (Rs)	22.4	22.8	22.7	43.3
Free Float (%)	19.9	% Chg YoY	7.0	1.6	(0.5)	91.1
FII (%)	8.6	BVPS (Rs)	164.8	189.9	212.6	255.9
Daily Volume (US\$'000)	1,416	P/E (x)	18.3	18.0	18.1	9.5
Absolute Return 3m (%)	(51.5)	P/BV (x)	2.5	2.2	1.9	1.6
Absolute Return 12m (%)	(21.9)	Net NPA (%)	0.0	0.0	0.8	0.0
Sensex Return 3m (%)	(12.7)	RoAuM (%)	5.3	3.5	2.6	4.3
Sensex Return 12m (%)	(15.1)	RoE (%)	16.9	13.2	11.3	18.5

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Table 1: Q4FY20 result review*(Rs mn)*

	Q4FY20	Q4FY19	% change YoY	Q3FY20	% change QoQ
Interest Income	4,544	3,124	45.4	4,167	9.0
Interest Expended	1,676	1,027	63.2	1,459	14.9
Net interest income (NII)	2,867	2,097	36.7	2,708	5.9
Other income	67	240	(72.2)	369	(81.9)
Total income	2,934	2,337	25.5	3,077	(4.6)
Operating expenses	1,229	822	49.4	1,071	14.8
-Staff expenses	682	500	36.4	674	1.1
-Other expenses	547	323	69.6	396	38.1
Operating profit	1,705	1,515	12.6	2,006	(15.0)
Total provisions	1,407	339	315.2	547	157.2
Profit before tax	298	1,176	(74.6)	1,459	(79.5)
Tax	70	413	(83.0)	379	(81.5)
Profit after tax	228	763	(70.1)	1,080	(78.9)
Key statistic (Rs mn)					
AuM	98,960	71,590	38.2	88,720	11.5
Borrowers (in mn)	2.8	2.4	16.6	2.7	4.7
Avg ticket size	33,193	28,133	18.0	31,136	6.6
AuM mix					
IGL	85	85	32.1	85	36.0
Family welfare	2	1	40.2	3	(110.9)
Home Improvement	8	9	(120.5)	7	88.3
Emergency	0	0	(0.7)	0	(2.6)
Retail Finance	5	5	49.6	5	(9.7)
Ratios (%)			bp chg YoY		bp chg QoQ
Profitability ratios					
Portfolio Yields	19.6	18.6	100	19.7	(10)
Cost of Funds	9.6	9.9	(30)	10.0	(40)
NIM	12.0	12.0	-	12.4	(40)
RoaA	0.9	4.1	(320)	4.6	(370)
RoaE	3.4	13.1	(970)	16.5	(1,310)
Asset Quality					
Gross NPL ratio	1.6	0.6	96	0.9	72
Business & Other Ratios					
Cost-income ratio	41.9	35.2	669	34.8	709
CAR	23.6	35.7	(1,214)	32.4	(880)

Source: Company, I-Sec research

Quick snapshot of Madura acquisition's impact on key business metrics

Chart 1: Madura added 21%/42% to CAGL's FY20 standalone AuM and borrower base respectively

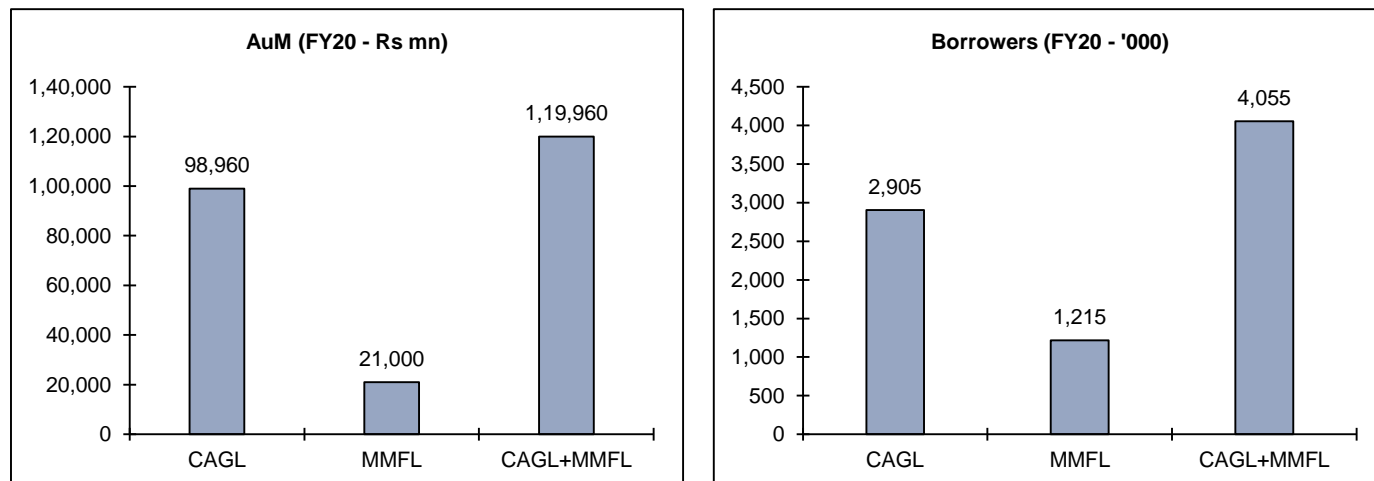


Chart 2: Significant scope exists for realigning Madura's average ticket size. The share of Karnataka fell to 40% post Madura acquisition.

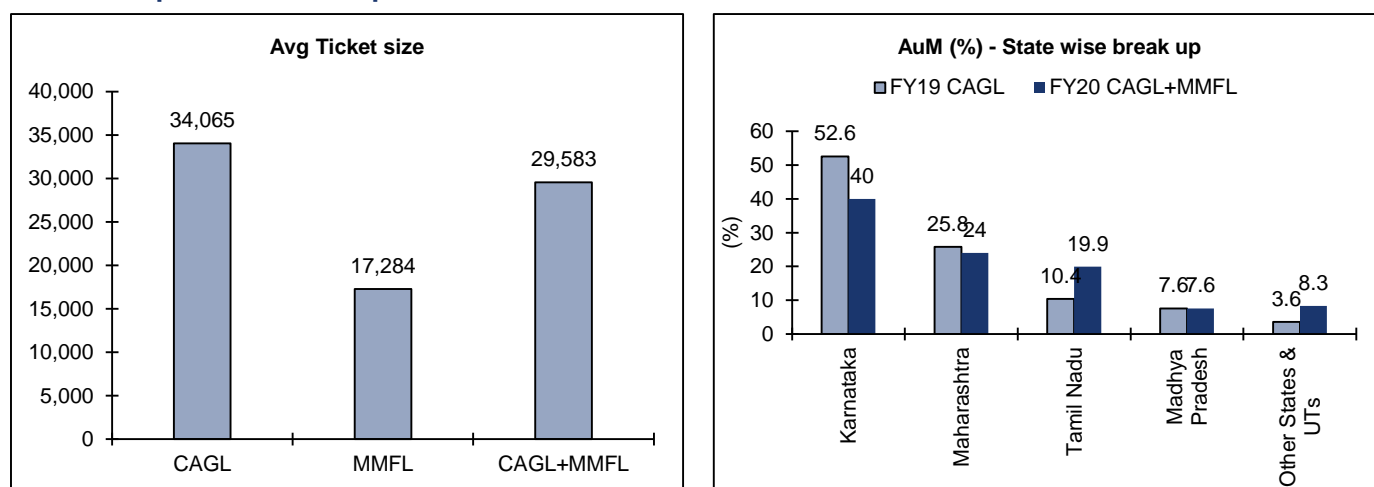
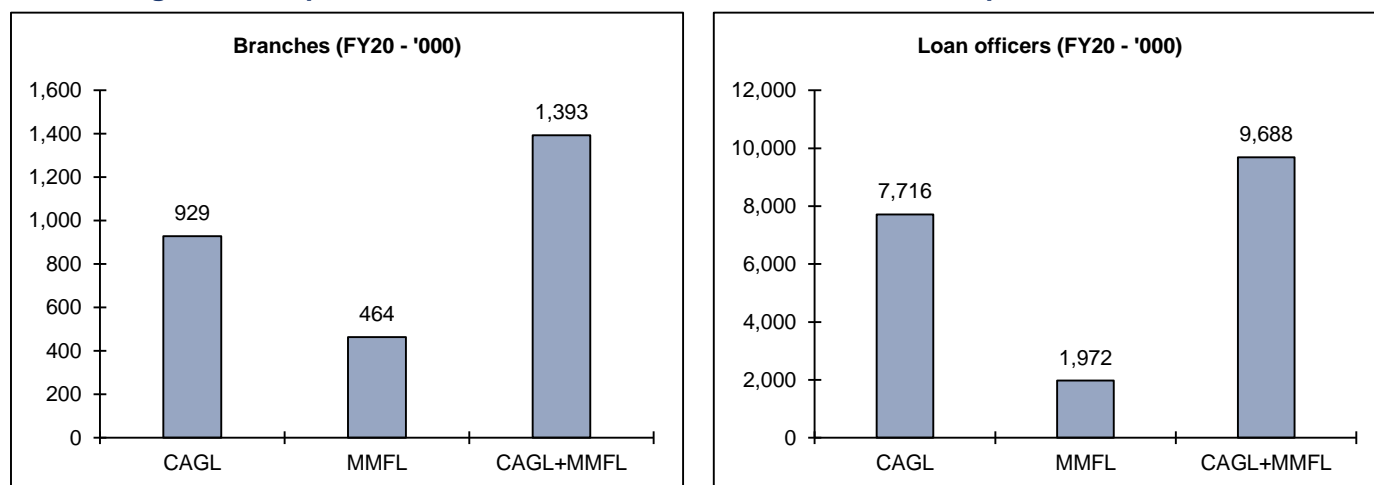
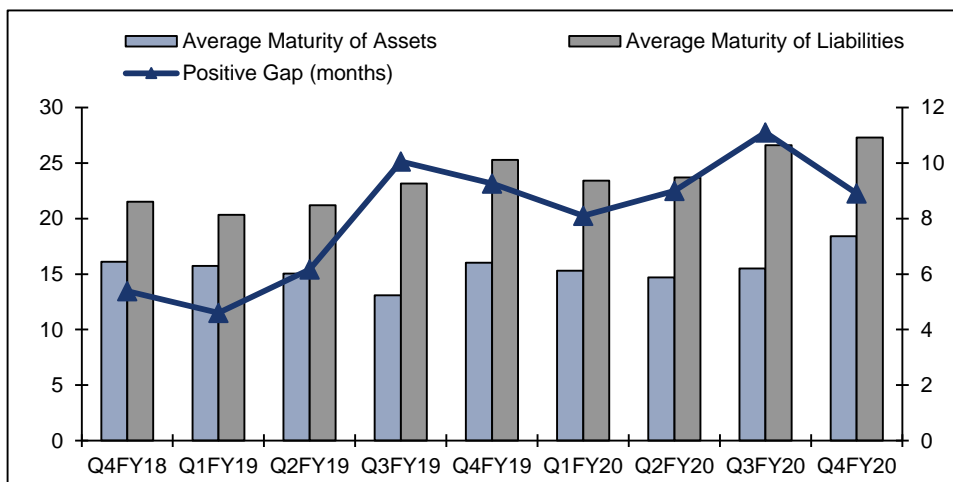


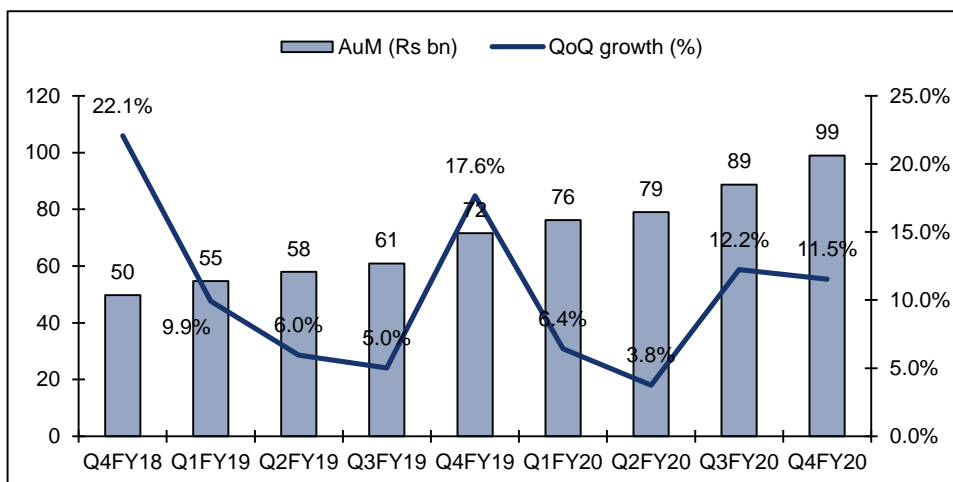
Chart 3: Significant expansion of business infrastructure with Madura acquisition



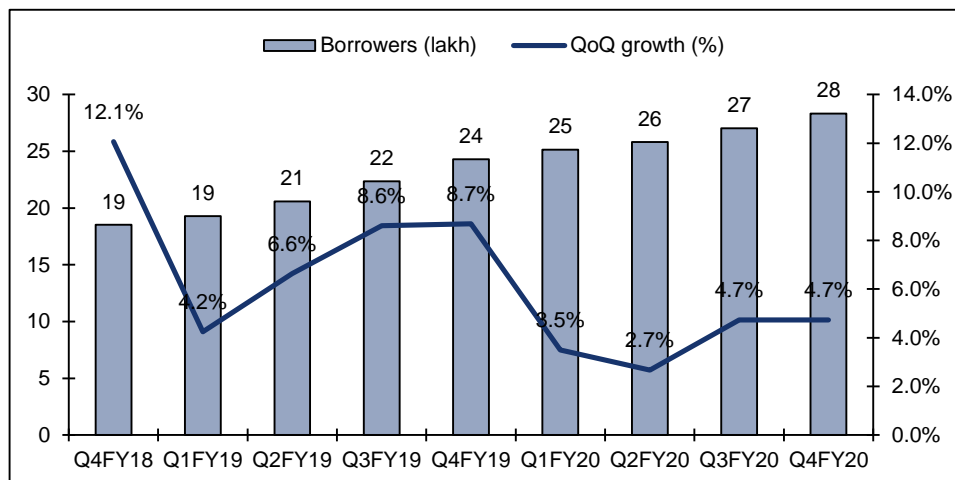
Source: Company, I-Sec research

Chart 4: Positive ALM mismatch at highest level of ~9 months

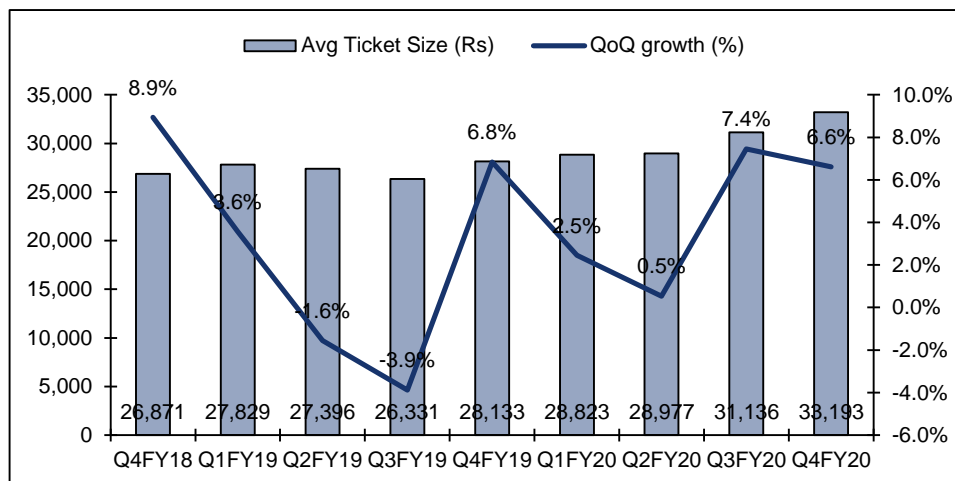
Source: Company, I-Sec research

Chart 5: AUM growth remains strong at 12% QoQ

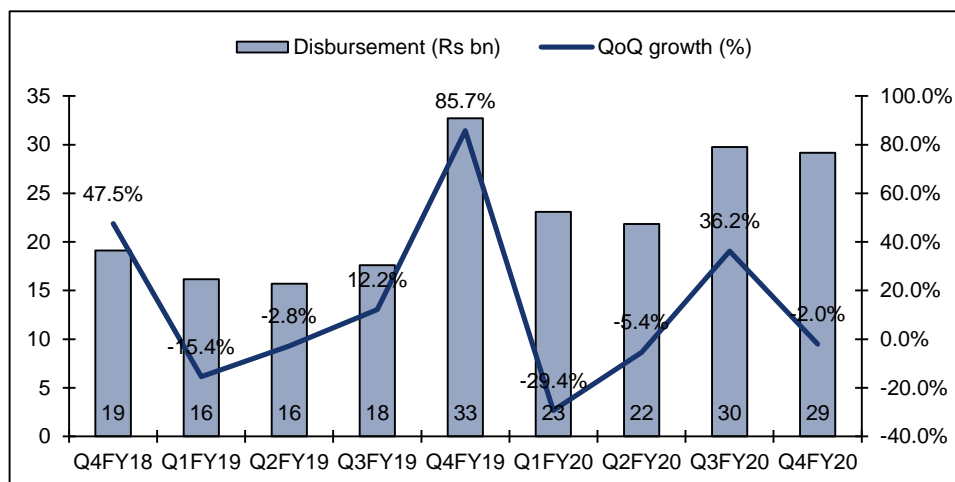
Source: Company, I-Sec research

Chart 6: Customer acquisition remains healthy at 5% QoQ

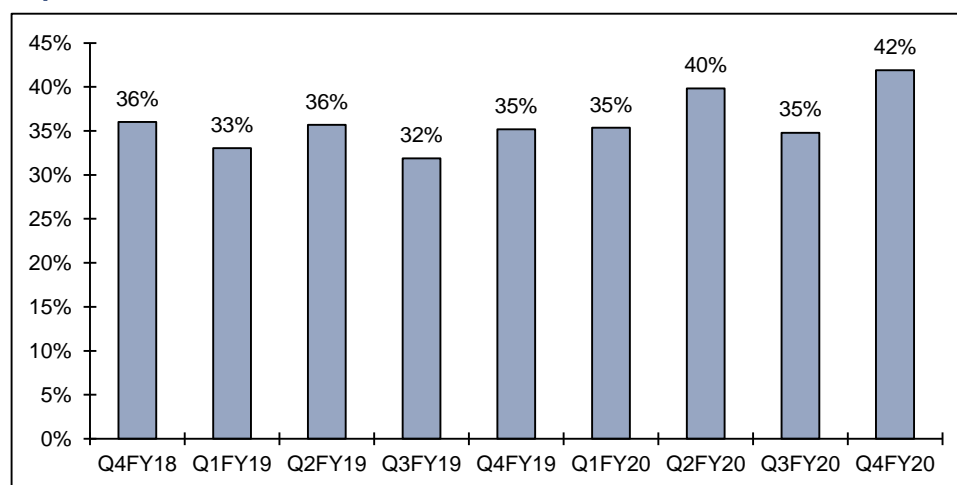
Source: Company, I-Sec research

Chart 7: Average ticket size now touching ~Rs33,193; key things to watch out going ahead

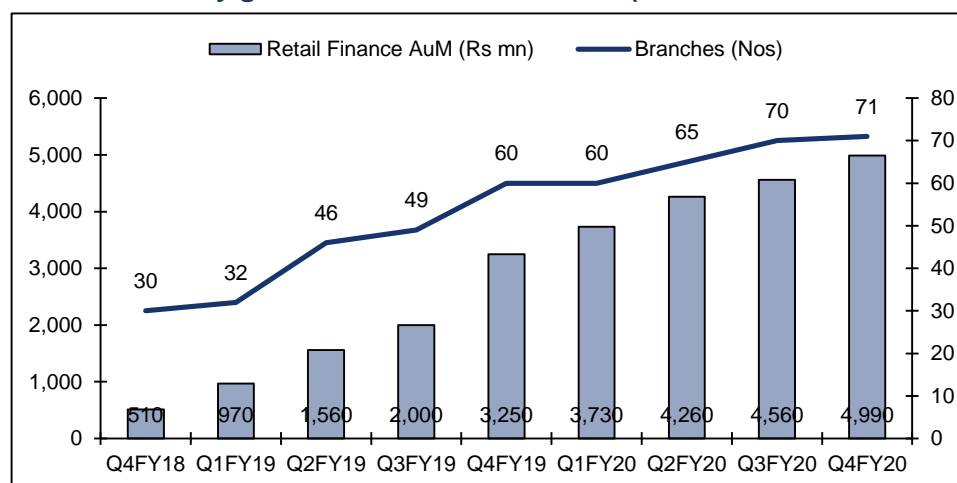
Source: Company, I-Sec research

Chart 8: Disbursement fell 2% QoQ due to lockdown

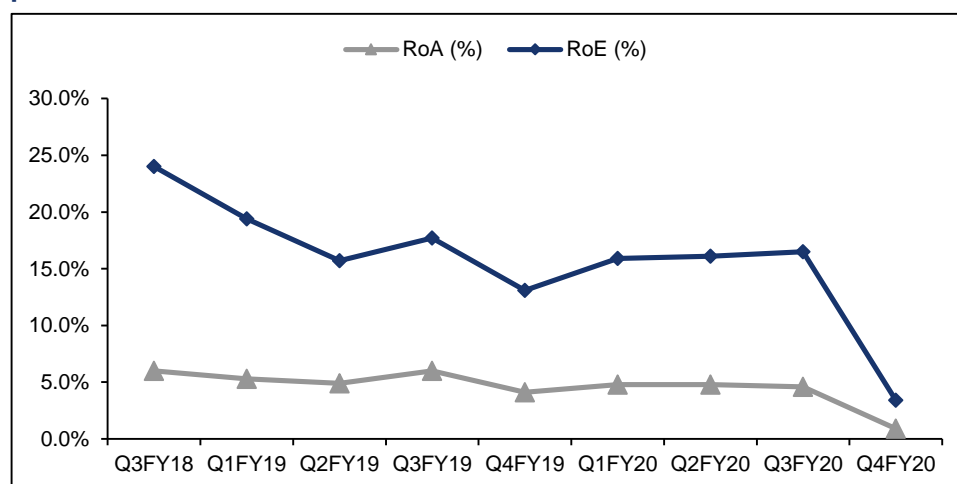
Source: Company, I-Sec research

Chart 9: Cost/income ratio increased to 42% due to one-off merger-related expenses

Source: Company, I-Sec research

Chart 10: Steady growth in retail finance book (now 5% of standalone AuM)

Source: Company, I-Sec research

Chart 11: Return ratios adversely impacted due to higher Covid-19-related provision

Source: Company, I-Sec research

Financial summary

Table 2: Profit and loss statement

(Rs mn, year ending March 31)

Year to March	FY19	FY20	FY21E	FY22E
Interest income	12,813	17,043	24,541	28,743
Interest charges	4,168	5,800	10,863	11,412
Net interest income	8,646	11,243	13,677	17,331
NII growth	67%	30%	22%	27%
Other Income	20	12	62	73
Net revenues	8,666	11,255	13,740	17,404
Operating expense	2,940	4,266	5,663	6,839
- Employee exp	1,861	2,621	3,337	4,025
YoY growth	43%	41%	27%	21%
- Depreciation /amortisation	78	204	366	528
- Other opex	1,001	1,442	1,960	2,287
Pre-provision profit	5,726	6,989	8,077	10,565
Provisions	749	2,373	3,726	2,237
PBT	4,977	4,616	4,351	8,328
Taxes	1,760	1,261	1,088	2,091
PAT (excl. extraordinary)	3,218	3,355	3,263	6,237

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

Year to March	FY19	FY20	FY21E	FY22E
Share capital	1,436	1,440	1,440	1,440
Reserves and surplus	22,215	25,902	29,166	35,403
Shareholders' fund	23,651	27,342	30,606	36,843
Total borrowings	48,295	95,397	1,03,813	1,29,091
Other lia.	1,628	3,157	12,623	15,193
Sources of funds	73,574	1,25,896	1,47,042	1,81,127
Loans & advances	66,028	1,10,989	1,28,468	1,59,750
Total fixed assets	271	863	287	309
Cash and cash equivalents	6,156	7,176	11,419	14,200
DTA	431	574	574	574
Other non-current assets	550	127	127	127
Other current assets	132	6,166	6,166	6,166
Uses of funds	73,574	1,25,896	1,47,042	1,81,127

Source: Company data, I-Sec research

Note – From FY20 onwards all numbers are on consolidated basis.

Table 4: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Growth ratios (%)				
NII growth	67.3	30.0	21.6	26.7
Net revenues growth	67.3	29.9	22.1	26.7
Opex growth	44.8	45.1	32.7	20.8
PPP growth	81.9	22.1	15.6	30.8
Provisions growth	(657.8)	217.0	57.0	(40.0)
PAT growth	51.4	4.3	(2.7)	91.1
Key ratios (%)				
Cal NIM	14.3	11.7	11.0	11.9
Opex/AUM	4.8	4.5	4.5	4.7
Opex/AUM (Cal.)	4.8	4.5	4.5	4.7
Cost/Income ratio	33.9	37.9	41.2	39.3
Credit cost	1.2	2.5	3.0	1.5
Asset quality (%)				
GNPA	0.61	0.7	3.8	0.8
NNPA	0	0	0.97	0
PCR	100	100	100	100
Per share data Rs)				
Diluted EPS	22.4	22.8	22.7	43.3
EPS growth (%)	7.2	1.6	(0.5)	91.1
Book value per share	164.8	189.9	212.6	255.9
BVPS growth (%)	16.5	15.3	11.9	20.4
Valuation				
P/E (x)	18.3	18.0	18.1	9.5
P/B (x)	2.5	2.2	1.9	1.6
RoA decomposition				
Net interest income (%)	14.3	11.7	11.0	11.9
Other income (%)	0.0	0.0	0.1	0.1
Total income (%)	24.2	11.8	11.0	12.0
Employee expenses (%)	3.1	2.7	2.7	2.8
Depre (%)	0.1	0.2	0.3	0.4
Other operating expenses (%)	1.7	1.5	1.6	1.6
Total operating expenses (%)	4.8	4.5	4.5	4.7
Pre-provisioning profits (%)	9.4	7.3	6.5	7.3
Provisions (%)	1.2	2.5	3.0	1.5
Pre-tax profits (%)	8.2	4.8	3.5	5.7
Tax (%)	2.9	1.3	0.9	1.4
RoAUM (%)	5.3	3.5	2.6	4.3
Leverage	3.2	3.8	4.3	4.3
RoE (%)	16.9	13.2	11.3	18.5
Capital Adequacy				
Tier I Capital	23,651	27,006	30,269	36,506
Tier II Capital	427	427	427	427
Total Capital	24,077	27,432	30,696	36,933
Total Risk Weighted Assets	67,688	1,13,306	1,32,338	1,63,014
% of total assets	92	90	90	90
CRAR - Tier I capital (%)	34.4	23.8	22.9	22.4
CRAR - Tier II capital (%)	0.9	0.4	0.3	0.3
CRAR (%)	35.3	24.2	23.2	22.7

Source: Company data, I-Sec research

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