

# CreditAccess Grameen Limited

BUY

CMP Rs411

Target Rs577

Upside 40.0%

<b>HIGHLIGHTS</b>	<ul style="list-style-type: none"> <li>✓ CREDAG's stand-alone PAT in Q4 FY20 was suppressed by lower securitization/assignment income (Rs6mn v/s Rs334mn in Q3 FY20 and Rs291mn in Q4 FY19), one-off expenses related to Madura acquisition (Rs152mn) and additional Covid-related provisions (Rs829mn). Adjusting for these items, co's operating performance was strong with PBT growth at 13% qoq and 44% yoy.</li> <li>✓ Despite Covid impacting operations in March, AUM growth was solid at 11.5% qoq and 38% yoy. Negligible branch/loan officer addition led to significant reduction in Opex/AUM ratio (from 5.1% in Q3 FY20 to 4.6%). There was a material reduction in funding cost with co. procuring Rs22bn of fresh funding at blended rate of ~9%.</li> <li>✓ PAR 60 portfolio increased to 1.6% from 0.9% as of Q3 FY20, owing to loans impacted in coastal Karnataka (external interference) and in parts of Maharashtra and Karnataka (due to floods in H1 FY20) having shifted buckets. While continuing to make full provisions on PAR 60 portfolio, CREDAG made the aforesaid Covid provisions. ECL cover rose to 2.9% of AUM.</li> <li>✓ During Q4 FY20, CREDAG completed 76.1% acquisition of Madura Micro Finance Ltd. (MMFL) having an AUM of Rs21bn and business infrastructure comprising 464 branches, ~2000 loans officers and 1.2mn borrowers. With dominant presence in Tamil Nadu (70% of AUM), MMFL diversifies CREDAG's regional footprint.</li> <li>✓ Key management commentary included a) prompt resumption of field operations (98% branches opened and 90% staff in place), b) 70% customers positive about not opting for further moratorium and about 20% wanting few weeks to start repayment, c) expects 60% of lenders to continue to provide principal moratorium till Aug 31 d) ~Rs15bn of sanctions under progress which includes ~Rs2.5bn under TLTRO facility and e) estimate credit cost from Covid to be around demonetization level (4%).</li> </ul>
	<ul style="list-style-type: none"> <li>✓ Incorporate MMFL acquisition in FY21/22 estimates. See FY21 to be challenging both in terms of credit cost and growth, but FY22 to be normal (MFIs have a shorter crisis cycle). Expect much lower liquidity and capital related challenges for CREDAG v/s peers.</li> <li>✓ Upgrade rating from ADD to BUY with a 12m TP of Rs577. Steep stock price fall and consequent valuation de-rating (1.6x FY22 P/ABV, without factoring capital raise) discounts FY21 headwinds but doesn't capture a sharp RoA/RoE recovery in FY22.</li> </ul>
	<ul style="list-style-type: none"> <li>✓ A large-scale moral hazard issue and adverse State intervention</li> </ul>
	<b>Our View</b>
	<b>Risk to our call</b>

## Exhibit 1: Financial Summary

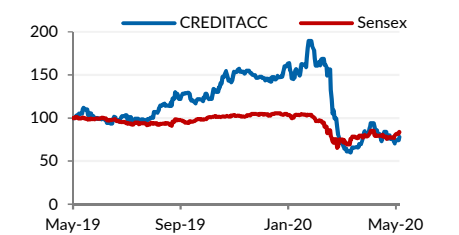
Y/e 31 Mar (Rs mn)	FY19	FY20*	FY21E*	FY22E*
Operating income	8,666	11,255	14,781	18,219
yoy growth (%)	67.3	29.9	31.3	23.3
PPOP	5,726	6,989	8,809	11,141
Net profit	3,218	3,336	1,654	6,653
yoy growth (%)	51.4	3.7	(50.4)	302.3
EPS (Rs)	22.4	23.2	11.3	45.4
Adj.BVPS (Rs)	164.8	189.9	205.3	250.7
P/E (x)	18.3	17.7	36.4	9.1
P/adj.BV (x)	2.5	2.2	2.0	1.6
ROE (%)	16.9	13.3	5.8	19.9
ROA (%)	5.2	3.7	1.2	4.2
CAR (%)	35.7	23.6	23.5	22.9

Source: Company, YES Sec - Research; \* financial consolidation of MMFL from March 18, 2020

## Stock data (as on June 1, 2020)

Sensex:	33,304
52 Week h/l (Rs)	1000 / 305
Market cap (Rs/USD mn)	58853 / 779
Outstanding Shares	144
6m Avg t/o (Rs mn):	101
Div yield (%):	-
Bloomberg code:	CREDAG IN
NSE code:	CREDITACC

## Stock performance



	1M	3M	1Y
Absolute return	(17.0)%	(51.5)%	(21.9)%

## Shareholding pattern (As of Mar'20 end)

Promoter	79.9%
FII+DII	14.3%
Others	5.8%

### RAJIV MEHTA

Lead Analyst

rajiv.mehta@ysil.in  
+91 22 3347 9635



### AMAR AMBANI, Sr. President, Head of Research

amar.ambani@ysil.in | +91 22 3347 7430

## CON-CALL HIGHLIGHTS

- ✓ Collection efficiency in April and May was negligible as CREDAG offered blanket moratorium in the first phase. Collection will start from today (June 1). All collections will only happen through center meetings
- ✓ CEDAG conducting center meetings by meeting 1/4<sup>th</sup> of members (but representing all) along with the group leader. For majority groups there is weekly meeting, so company would cover meeting all customers in the group during a month.
- ✓ People movement restrictions only in containment areas; particularly in Maharashtra where such areas are more.
- ✓ Company will attribute initial EMIs towards the accrued interest of the moratorium period. For a borrower, the EMI is not changing (compared to pre-Covid) but tenor is getting extended based on the remaining tenor of the original loan (determines accrued interest adjustment).
- ✓ CREDAG not to offer blanket moratorium in second phase. It will be need-based and offered on case-to-case basis.
- ✓ As per recent customer engagement, about 10% of customers may opt for moratorium in the second term. These borrowers largely in urban areas and in more Covid affected zones.
- ✓ ~20% of borrowers who are likely to take few weeks before starting repayments are the ones whose economic activity started late (in May).
- ✓ Company will start disbursement to customers who are prompt in repayment. Have always provided money based on need and repayment record.
- ✓ Over 60% of lenders extended moratorium during the first phase. Management expecting similar level of support in second moratorium period.
- ✓ About Rs3.5bn received from SIDBI and NABARD at ~8% rate under the special liquidity facility during May. Drawdown or fresh funding from banks stood at just Rs0.7bn in April-May. About Rs22bn of funding was drawn in Q4 at an average rate of 9%.
- ✓ Sanctions under progress (expected drawdown in June-July) worth Rs14.8bn are largely from banks who have offered moratorium (most large private and public banks). This amount also includes about Rs2.5bn under TLTRO facility.
- ✓ The company will continue to diversify liability base and wants to reduce dependency on banks to below 50% (currently at 62%).
- ✓ CREDAG has an internal policy of not operating with Tier-1 capital below 20%. There is headroom of 3-4 quarters before capital raise.
- ✓ MMFL's portfolio is pre-dominantly in TN (70% of portfolio) and majority operating districts are marked as red zone as they have >100 Covid cases. The company also has about 12% portfolio in Maharashtra which has higher incidence of Covid.
- ✓ Support from CREDAG and presence of common lenders will alleviate liquidity challenges for MMFL. MMFL received moratorium from 55-60% lenders in the first phase.
- ✓ Covid-related provisioning is an additional one-time overlay; the ECL model already includes management overlay based on similar risk events. LGD will keep changing due to data rollover.
- ✓ Management expects credit cost to not exceed demonetization level of 4%. The company holds a buffer provisioning (ECL - GNPL) of 1.3%. CREDAG not looking to change its provisioning policy.

## Exhibit 2: Result Table

(Rs mn)	Q4 FY20*	Q3 FY20	% qoq	Q4 FY19	% yoy
Total Operating Income	4,817	4,532	6.3	3,355	43.6
Interest Expenses	(1,750)	(1,459)	19.9	(1,027)	70.3
<b>Net Interest Income</b>	<b>3,068</b>	<b>3,073</b>	<b>(0.2)</b>	<b>2,328</b>	<b>31.8</b>
Other income	4	4	-	9	(54.9)
<b>Total Income</b>	<b>3,072</b>	<b>3,077</b>	<b>(0.2)</b>	<b>2,337</b>	<b>31.4</b>
Operating expenses	(1,277)	(1,071)	19.3	(822)	55.3
PPOP	1,795	2,006	(10.5)	1,515	18.5
Provisions	(1,390)	(547)	154.0	(339)	310.2
PBT	405	1,459	(72.2)	1,176	(65.5)
Tax	(97)	(379)	(74.3)	(413)	(76.4)
<b>Adjusted PAT</b>	<b>308</b>	<b>1,080</b>	<b>(71.5)</b>	<b>763</b>	<b>(59.7)</b>

Source: Company, YES Sec - Research

\*Q4 FY20 includes financial consolidation of MMFL from March 18, 2020

## Exhibit 3: Business Data (standalone)

(%)	Q4 FY20	Q3 FY20	chg qoq	Q4 FY19	chg yoy
<b>Gross Loan Portfolio</b>	<b>98,960</b>	<b>88,720</b>	<b>11.5</b>	<b>71,590</b>	<b>38.2</b>
IGL	84,470	75,410	12.0	60,880	38.7
Family Welfare	1,680	2,490	(32.5)	930	80.6
Home Improvement	7,700	6,120	25.8	6,430	19.8
Emergency	130	140	(7.1)	100	30.0
Retail Finance	4,990	4,560	9.4	3,250	53.5
<b>Disbursement (Rs mn)</b>	<b>29,160</b>	<b>29,770</b>	<b>(2.0)</b>	<b>32,720</b>	<b>(10.9)</b>
<b>Branches</b>	<b>929</b>	<b>928</b>	<b>0.1</b>	<b>670</b>	<b>38.7</b>
Group	858	858	-	610	40.7
Retail	71	70	1.4	60	18.3
<b>Employees</b>	<b>10,824</b>	<b>10,465</b>	<b>3.4</b>	<b>8,064</b>	<b>34.2</b>
Group	9,654	9,361	3.1	7,135	35.3
Retail	1,170	1,104	6.0	929	25.9
<b>Loan Officers</b>	<b>7,716</b>	<b>7,587</b>	<b>1.7</b>	<b>5,768</b>	<b>33.8</b>
Group	6,962	6,892	1.0	5,172	34.6
Retail	754	695	8.5	596	26.5
<b>Active Borrowers (mn)</b>	<b>2.9</b>	<b>2.8</b>	<b>4.9</b>	<b>2.5</b>	<b>17.6</b>
Group	2.8	2.7	4.9	2.4	16.6
Retail	0.1	0.1	23.3	0.0	80.5

Source: Company, YES Sec - Research; \*Computed

## Exhibit 4: Key Ratios (standalone)

(Rs mn)	Q4 FY20	Q3 FY20	% qoq	Q4 FY19	% yoy
<b>NIM</b>	<b>12.0</b>	<b>12.4</b>	<b>(0.4)</b>	<b>12.0</b>	<b>-</b>
Portfolio Yield	19.6	19.7	(0.1)	18.6	1.0
Cost of Borrowing	9.6	10.0	(0.4)	9.9	(0.3)
Opex/GLP	4.6	5.1	(0.5)	5.0	(0.4)
C/I	36.7	34.8	1.9	35.2	1.5
<b>RoA</b>	<b>3.6</b>	<b>4.6</b>	<b>(1.0)</b>	<b>4.1</b>	<b>(0.5)</b>
<b>RoE</b>	<b>12.9</b>	<b>16.5</b>	<b>(3.6)</b>	<b>13.1</b>	<b>(0.2)</b>
<b>GNPA</b>	<b>1.6</b>	<b>0.9</b>	<b>0.7</b>	<b>0.6</b>	<b>1.0</b>
<b>CRAR</b>	<b>23.6</b>	<b>32.4</b>	<b>(8.8)</b>	<b>35.7</b>	<b>(12.1)</b>

Source: Company, YES Sec - Research

## Exhibit 5: Comparison of CAGL and MMFL

Particulars	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20
<b>Branches (no)</b>					
CAGL	670	753	887	928	929
MMFL	357	402	420	449	464
<b>Borrowers (mn)</b>					
CAGL	2.5	2.6	2.6	2.8	2.9
MMFL	1.0	1.0	1.1	1.2	1.2
<b>GLP (Rs mn)</b>					
CAGL	71,590	76,190	79,050	88,720	98,960
MMFL	18,570	19,180	20,490	21,370	21,000
<b>Loan Officers (no)</b>					
CAGL	5,768	6,165	7,110	7,587	7,716
MMFL	1,391	1,587	1,746	1,974	1,972
<b>Employees (no)</b>					
CAGL	8,064	8,641	9,817	10,465	10,824
MMFL	2,678	3,046	3,312	3,623	3,672
<b>Portfolio Yield (%)</b>					
CAGL	18.6	19.7	19.5	19.7	19.6
MMFL	22.6	21.4	21.8	21.5	22.3
<b>CoB (%)</b>					
CAGL	9.9	10.3	10.2	10.0	9.6
MMFL	11.4	11.5	11.8	11.5	11.7
<b>NIM (%)</b>					
CAGL	12.0	12.6	12.3	12.4	12.0
MMFL	13.2	11.7	11.0	11.9	12.4
<b>Cost/Income (%)</b>					
CAGL	35.2	35.4	39.8	34.8	36.7
MMFL	29.4	37.2	40.7	39.4	40.6
<b>Opex/GLP (%)</b>					
CAGL	5.0	4.8	5.3	5.1	4.6
MMFL	4.8	5.2	5.3	5.5	5.9
<b>GNPL (%)</b>					
CAGL	0.6	0.6	0.5	0.9	1.6
MMFL	0.9	1.4	1.4	1.6	1.6
<b>RoA (%)</b>					
CAGL	4.1	4.8	4.8	4.6	0.9
MMFL	4.6	4.5	2.3	3.2	4.5
<b>RoE (%)</b>					
CAGL	13.1	15.9	16.1	16.5	3.4
MMFL	29.5	29.0	14.1	18.8	25.6

Source: Company, YES Sec – Research

## Exhibit 6: Liability Mix (%)

Particulars	CAGL	MMFL
Banks - Term loans	62.1	51.3
FI - Term loans	20.0	17.0
NBFC - Term loans	2.0	8.2
Domestic - NCD	-	7.4
Foreign - NCD	7.7	-
Direct Assignment	5.0	6.7
Foreign - ECB	2.9	
Banks - Sub debt	0.3	4.0
Securitisation	-	5.4

Source: Company, YES Sec - Research

## Exhibit 7: Regional Mix (%)

Particulars	Branches		Borrowers		GLP	
	FY19	FY20	FY19	FY20	FY19	FY20
	CAGL	CAGL + MMFL	CAGL	CAGL + MMFL	CAGL	CAGL + MMFL
Karnataka	33.7	21.4	46.0	31.1	52.6	40.0
Maharashtra	26.3	20.4	28.0	22.3	25.8	24.1
Tamil Nadu	16.0	27.4	11.1	27.5	10.4	19.9
Madhya Pradesh	13.4	8.3	10.4	8.0	7.6	7.6
Other States & UTs	10.6	22.6	4.5	11.1	3.6	8.3

Source: Company, YES Sec - Research

## Exhibit 8: District Concentration (%)

Particulars	CAGL	MMFL	CAGL + MMFL
Top 1	4.0	5.0	4.0
Top 3	12.0	13.0	10.0
Top 5	17.0	19.0	15.0
Top 10	29.0	32.0	24.0
Others	71.0	68.0	76.0

Source: Company, YES Sec - Research

## DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

The information and opinions in this report have been prepared by YSL and are subject to change without any notice. The report and information contained herein are strictly confidential and meant solely for the intended recipient and may not be altered in any way, transmitted to, copied or redistributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of YSL.

The information and opinions contained in the research report have been compiled or arrived at from sources believed to be reliable and have not been independently verified and no guarantee, representation of warranty, express or implied, is made as to their accuracy, completeness, authenticity or validity. No information or opinions expressed constitute an offer, or an invitation to make an offer, to buy or sell any securities or any derivative instruments related to such securities. Investments in securities are subject to market risk. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Investors should note that each security's price or value may rise or fall and, accordingly, investors may even receive amounts which are less than originally invested. The investor is advised to take into consideration all risk factors including their own financial condition, suitability to risk return profile and the like, and take independent professional and/or tax advice before investing. Opinions expressed are our current opinions as of the date appearing on this report. Investor should understand that statements regarding future prospects may not materialize and are of general nature which may not be specifically suitable to any particular investor. Past performance may not necessarily be an indicator of future performance. Actual results may differ materially from those set forth in projections.

Technical Analysis reports focus on studying the price movement and trading turnover charts of securities or its derivatives, as opposed to focussing on a company's fundamentals and opinions, as such, may not match with reports published on a company's fundamentals.

YSL, its research analysts, directors, officers, employees and associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject YSL and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

## DISCLOSURE OF INTEREST

Name of the Research Analyst : Rajiv Mehta

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

### YES Securities (India) Limited

Registered Office: Unit No. 602 A, 6th Floor, Tower 1 & 2, Indiabulls Finance Centre, Senapati Bapat Marg, Elphinstone Road, Mumbai - 400013, Maharashtra, India.

Tel: +91-22-71123123 | Email: [research@ysil.in](mailto:research@ysil.in) | Website: [www.yesinvest.in](http://www.yesinvest.in)

**Registration Nos.:** CIN: U74992MH2013PLC240971 | SEBI Single Registration No.: NSE, BSE, MCX & NCDEX: INZ000185632 | Member Code: BSE - 6538, NSE - 14914, MCX - 56355 & NCDEX - 1289 | MERCHANT BANKER: INM000012227 | RESEARCH ANALYST: INH000002376 | INVESTMENT ADVISER: INA000007331 | AMFI ARN Code - 94338

Details of Compliance Officer: Name: Vaibhav Purohit, Email id: [compliance@ysil.in](mailto:compliance@ysil.in), Contact No-+91-22-33479208

## **RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS**

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Potential return >15% over 12 months

**ADD:** Potential return +5% to +15% over 12 months

**REDUCE:** Potential return -10% to +5% over 12 months

**SELL:** Potential return <-10% over 12 months

NOT RATED / UNDER REVIEW

## **ABOUT YES SECURITIES (INDIA) LIMITED**

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a SEBI registered stock broker holding membership of NSE, BSE and MCX. YSL is also a SEBI registered Category I Merchant Banker, Investment Adviser and a Research Analyst. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.