

# CreditAccess Grameen Ltd.



# CreditAccess Grameen Ltd.

**Customer centric approach results in better collections amidst lockdown**

CMP <b>INR 531</b>	Target <b>INR 684</b>	Potential Upside <b>29%</b>	Market Cap (INR Mn) <b>76,555</b>	Recommendation <b>BUY</b>	Sector <b>NBFC-MFIs</b>
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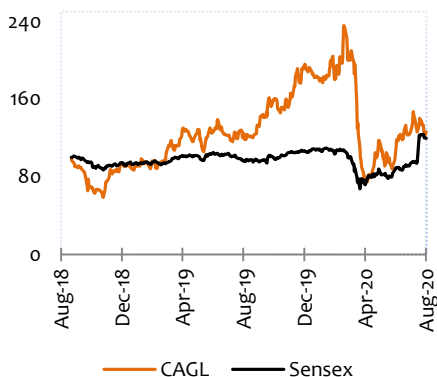
## Result Highlights Q1FY21

- NBFC-MFI has reported consolidated total income of INR 3.9 bn and PAT after minority interest reported at INR 72.1 cr. Consolidated GLP has grown by 53.9% YoY to INR 117.2 bn. According to management, lifting of lockdown to support further advances growth.
- Standalone NII reported at INR 3 bn (26% YoY, 6% QoQ) for Q1FY21 backed by NIMs at 12.6%. Total income reported at INR 3.3 bn (29% YoY, 11% QoQ) along with 73% YoY growth in Non-interest income at INR 22.4 cr (94% QoQ).
- Standalone Pre-provision profit reported at INR 2.2 bn (37% YoY, 32% QoQ) backed by improved operating efficiency where cost to income ratio was at 31% from 41.9% in Mar'20 and 35.4% in Jun'19. Opex/GLP ratio also improved from 4.8% in Jun'19 to 4.1% in Jun'20.
- PAT has lowered by 33.6% YoY due to additional COVID provisioning of INR 1.4 bn for the quarter where PAT reported at INR 63.6 cr.
- Asset quality is stable with GNPA of 1.62% and NNPA of 0.0%. Capital adequacy is stable at 23.7%.
- Its collection efficiency improved to 74% of Jun'20 and 76% in Jul'20.

## MARKET DATA

Shares outs (Mn)	144
Equity Cap (INR Mn)	1,441
Mkt Cap (INR Mn)	76,555
52 Wk H/L (INR)	1,000/306
Volume Avg (3m K)	136.4
Face Value (INR)	10
Bloomberg Code	CREGAG IN

## SHARE PRICE PERFORMANCE



## MARKET INFO

SENSEX	36,940
NIFTY	10,892

## SHARE HOLDING PATTERN (%)

Particulars	Jun 20	Mar 20	Dec 19
Promoters	79.91	79.95	80.01
FIIs	6.16	5.59	6.29
DIIIs	8.4	8.66	7.77
Others	5.53	5.8	5.94
Total	100	100	100

## Consolidated Key Financials

(INR cr)	FY 2018	FY 2019	FY 2020	FY 2021E	FY 2022E	FY 2023E
NII	506.0	801.6	1053.4	1724.9	1930.1	2339.8
PPOP	314.8	572.6	698.9	1191.3	1338.9	1621.9
PAT	212.5	321.8	335.5	495.7	720.8	939.1
EPS (INR)	16.5	22.4	23.2	34.5	50.1	65.3
BVPS (INR)	111.9	164.8	198.1	232.8	283.7	349.9
ABVPS (INR)	111.8	162.8	195.3	231.0	281.6	347.3
P/E (x)	18.6x	21.7x	14.4x	15.4x	10.6x	8.1x
P/ABV (x)	3.4x	3.1x	1.7x	2.3x	1.9x	1.5x

Source: KRChoksey Research, Company reports

 \* FY 2018 & FY 2019 financials are based on Standalone basis, Consolidated Financials from 18<sup>th</sup> Mar, 2020

**Efforts on collection efficiency:** CAGL has 76% of collection efficiency for July'20 while MMFL has 64% as against 54% in Jun'20. Overall collection efficiency is expected to further improve during Sept'20 once the moratorium is over. Customer centricity and weekly repayments and majority of borrowers from rural areas has led to improved collections. Monthly repayments of MMFL shows lower collections when compared with CAGL. CAGL's collection efficiency was more than 80% excluding Maharashtra where lockdown is extended.

Due to limited scope of economic activities and less movement, borrowers opted for moratorium to keep cash flows with them. CAGL's 17% and MMFL's 22% of borrowers have opted for full moratorium in Jul'20. Most borrowers from COVID-19 impacted states like Maharashtra, Tamil Nadu and Karnataka and urban areas like Bangalore has opted for moratorium. It includes borrowers' profiles like beauty parlor, tourism, etc.

CAGL believes in its customer centric approach to improve its collection efficiency where it has been able to connect with >98% of centers. In order to maintain social distancing, CAGL has started conducting center meetings with the group of 4-5 members as against 5-10 group members earlier.

**Expecting gradual recovery in disbursements:** CAGL has disbursed INR 46 cr in Q1FY21 and INR 527 cr in the month of July'20. Disbursements were made for the borrowers who made on time repayments. MMFL has disbursed INR 0.4 cr in Q1FY21. CAGL's liquidity enhanced to INR 16.4 bn cash & cash equivalent as on July'20 from INR 13.8 bn as on Jun'20. Also, its adequate capital of 23.7% would ensure growth for FY21.

60% of Overall MFI loans are normally disbursed in the second half of the year. Management expects disbursements to pick up in the future, as it carries responsibility to offer liquidity in overall economic activities. Recovery in COVID-19 situation and lockdown would decide the quantum of disbursements further.

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**Profitability:** Total income sequentially grew by +26% to INR 3.9 bn and PPOP by +31% to INR 2.6 bn as against INR 2 bn in Mar'20. Overall operating efficiency improved as cost to income ratio stood at 34% for Jun'20 as against 37% in Mar'20. CAGL's bottomline performance has lowered due to additional provisioning on account of COVID-19. PAT reported at INR 72.1cr for the quarter. Total provisioning for the quarter stood at INR 2.5 bn for INR 4.6 bn of expected credit losses as on Jun'20.

### Key con-call highlights

**Disbursements:** i) CAGL has disbursed INR 527 cr in July'20 which is 76% of July'19. ii) CAGL's sufficient staff, liquidity and capital would enable growth for FY 21. It has facilitated onboarding of 171 former CAGL field employees in July, who were aware of the its culture while saving training time. iii) Borrowers with business prospects and who has made payments on time were provided with top-up/ repeat loans. iv) In terms of advances growth, management believes the disbursements would gradually pick up on the back of closed loans with full repayment by borrowers. Secondly, recovery in economic activities along with improvement in COVID-19 situation and lifting of lockdowns would lead to new customer acquisition. Normally disbursements growth observed in 2<sup>nd</sup> half of year where 60% of overall loans are disbursed. It expects 5 to 6 months period would enable double digit growth in its advances. ix) ~65% interest accrued is already collected as on Jun'20. x) From Q1FY21, 100% of disbursements are made cashless as against 70% earlier.

**Collections:** i) The management expects reduction in moratorium book up to ~4 to 5% starting Sep'20. According to feedback from borrowers who has availed full morat so far would start repayment in Aug & Sep'20. ii) Collection efficiency in Karnataka for MMFL was 89% which is better than CAGL of 78%. Increased COVID cases in Karnataka led to lockdown in specific districts affecting collections. Bangalore city was mainly affected. However, post lifting of last 15 days of lockdown from many areas; management expects 4-5% of more collections for this month. iii) It has enabled digital payments where more than 1000 customers are paying digitally.

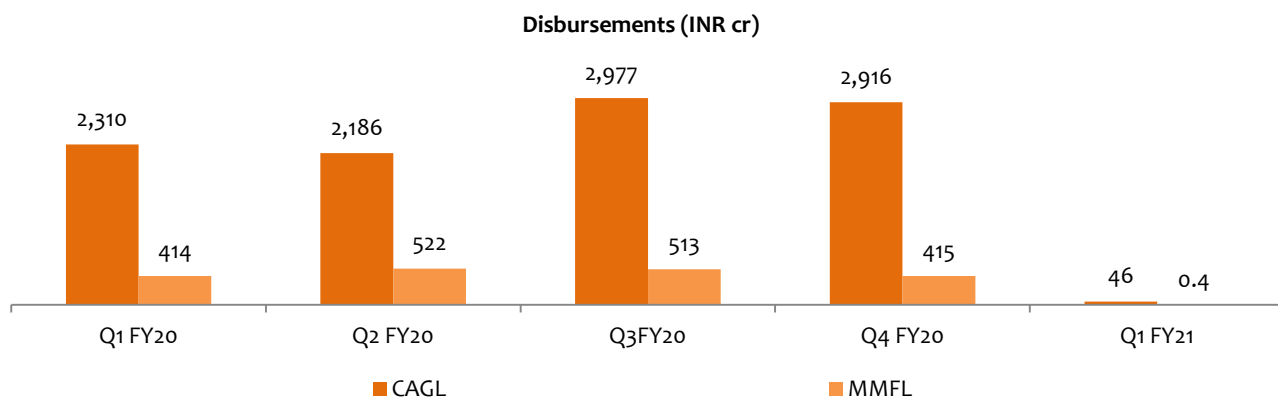
**Other highlights:** i) The impact of goodwill amortization on balance sheet would be for next 4 to 6 quarters. ii) CAGL has sourced INR 200 cr through short term funding of commercial papers as a part of CAGL's diverse funding resources strategy availed at better rates. iii) Center meetings are conducted with 4-6 members only in order to ensure social distancing being in human touch base business. For new customer acquisition, it would form only 5 members group going forward to ensure social distancing norms and many other changes are expected. iv) Being in the disciplined microfinance business, the MFI has not changed the EMIs to avoid burden on the borrowers. However, it has changed the tenure of the loan.

### Valuation

Overall collections were in line with management expectations and it expects more than 90% of collections by Sept'20. Adequate capital and sufficient liquidity would support gradual recovery in disbursements towards existing and new customers with close monitoring of COVID-19 situation. CAGL's strong customer retention of 85% and customer centric approach to play key role in this pandemic. Management observes intact demand in micro finance industry where a lot more scope available with 90 mn unserved/underserved households. It awaits normalcy in overall economic activities with improvement in COVID-19 situation to raise disbursements at pre-COVID levels. **At CMP of INR 531, CAGL is trading at a multiple of 2.7x of consolidated adjusted book value of INR 195.3/share. Full recovery in business operations is expected in the next financial year. Accordingly, we assign P/ABV multiple of 2.43x to FY22E consolidated adjusted book value of INR 281.6/share to arrive at a target price of INR 684/share and maintain BUY rating on the stock.**

### Quarterly trend in Disbursements

In Q1 FY21, focus was mainly on collections and there was a cautious approach on disbursements. In July'20, disbursements were at INR 527 cr.

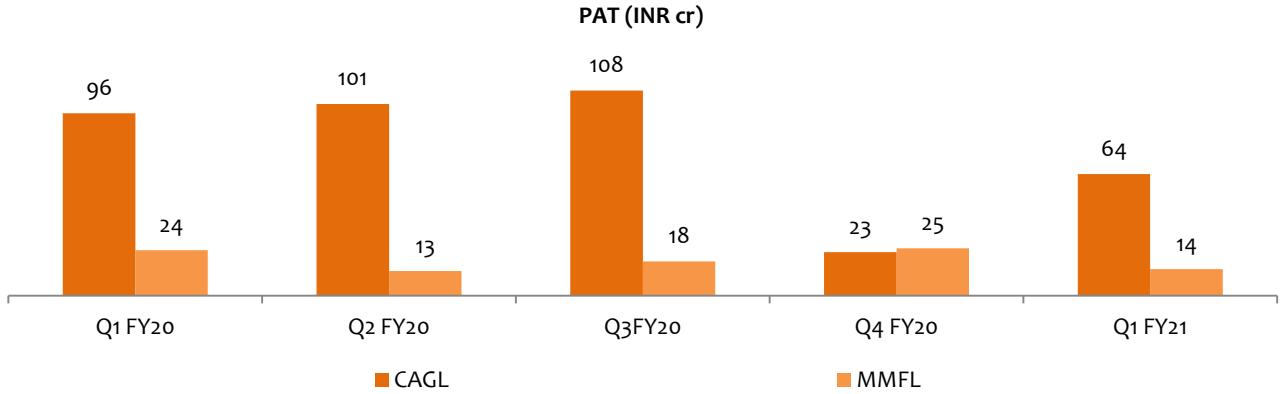


Source: Company data, KRChoksey Research

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## Quarterly Trend in Profitability

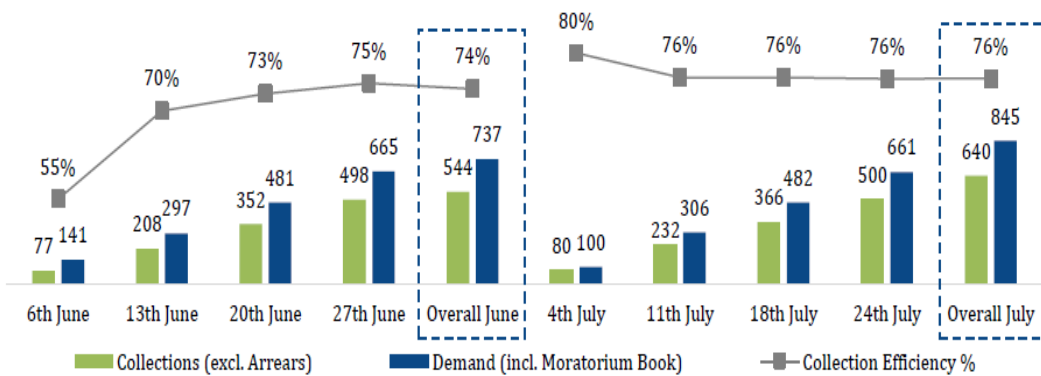
PAT for Q1FY21 was lowered due to provisioning on account of COVID-19. It was INR 141 cr for CAGL and INR 11.9 cr for MMFL in the quarter.



Source: Company data, KRChoksey Research

## CAGL Collection Efficiency

### Improvement in Cumulative Collections

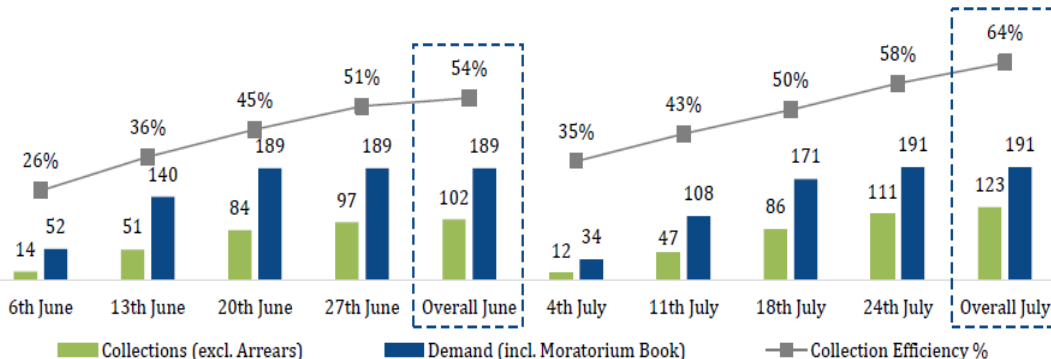


CE %	June	July
Karnataka	78%	78%
Maharashtra	62%	65%
Tamil Nadu	75%	79%
Madhya Pradesh	81%	88%
Others	86%	87%
<b>Total</b>	<b>74%</b>	<b>76%</b>

Source: Company investor presentation

## MMFL Collection Efficiency

### Improvement in Cumulative Collections



CE %	June	July
Tamil Nadu	54%	66%
Maharashtra	45%	56%
Odisha	43%	43%
Bihar	66%	75%
Others	60%	68%
<b>Total</b>	<b>54%</b>	<b>64%</b>

Source: Company investor presentation

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## CAGL Q1FY21 Result Performance

Particulars (INR Crore)	Q1 FY21	Q1 FY20*	Q4 FY20	YoY %**	QoQ %
<b>Income Statement</b>					
Interest Income	616.0	370.4	470.6	66.3%	30.9%
Interest Expense	232.6	123.6	175.0	88.2%	32.9%
Net Interest Income	383.4	246.8	295.6	55.3%	29.7%
Non Interest Income	3.9	6.1	11.6	-36.1%	-66.4%
Operating Income	387.3	252.9	307.2	53.1%	26.1%
Operating Expenses	131.6	89.5	112.5	47.1%	17.0%
Pre-provisioning Profit	255.7	163.4	194.7	56.5%	31.3%
Impairment of financial instruments	155.1	15.5	139.0	902.6%	11.6%
Pre-tax Profit	100.6	148.0	40.5	-32.0%	148.4%
Tax	25.9	52.3	9.7	-50.5%	167.0%
Profit before minority interest	74.7	95.7	30.8	-21.9%	142.5%
Minority interest	2.6	0.0	1.9	-	36.8%
Profit after tax	72.1	95.7	28.9	-24.6%	149.5%
Diluted EPS	5.0	6.6	2.0	-24.8%	149.7%
<b>Balance Sheet Analysis</b>					
Cash and bank balance	1274.9	526.4	717.6	142.2%	77.7%
Loans	10752.5	7096.6	11098.9	51.5%	-3.1%
Borrowings	9697.3	5149.0	9539.7	88.3%	1.7%
Net worth	2927.6	2458.6	2843.1	19.1%	3.0%

Source: Company data, KRChoksey Research

\* Q1FY20 figures based on CAGL standalone performance, hence not comparable for YoY basis.

## Key Ratios of CAGL and MMFL

Particulars	Standalone CAGL			Standalone MMFL		
	Q1 FY21	Q1 FY20	Q4 FY20	Q1 FY21	Q1 FY20	Q4 FY20
<b>Spread Analysis</b>						
Yield on average loans (%)	20.5%	19.7%	19.6%	21.3%	21.4%	22.3%
Cost of borrowings (%)	9.4%	10.3%	9.6%	11.2%	11.5%	11.7%
NIM (%)	12.6%	12.6%	12.0%	11.5%	11.7%	12.4%
<b>Asset quality</b>						
GNPA (%) (60+ DPD)	1.63%	0.6%	1.6%	1.63%	1.4%	1.6%
NNPA (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Provisioning	4.42%	1.1%	2.9%	3.18%	1.9%	2.4%
<b>Capital Adequacy</b>						
CAR (%)	23.7%	34.6%	23.6%	23.8%	NA	23.0%
Tier 1 Ratio(%)	22.4%	33.2%	22.3%	20.0%	NA	19.5%
<b>Key ratios</b>						
Cost to income (%)	31.0%	35.4%	36.7%	43.0%	37.2%	40.6%
Opex/GLP ratio (%)	4.1%	4.8%	4.6%	5.1%	5.2%	5.9%
ROA	2.2%	4.8%	0.9%	2.5%	4.5%	4.5%
ROE	9.4%	15.9%	3.4%	13.7%	29.0%	25.6%

Source: Company data, KRChoksey Research

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## Exhibit: Consolidated Financial Statements

PROFIT & LOSS ACCOUNT (INR Crores)	FY 2018	FY 2019	FY 2020	FY 2021E	FY 2022E	FY 2023E
Interest income	859.7	1218.3	1633.4	2659.3	3159.7	3805.4
Interest expense	353.7	416.75	580.0	934.4	1229.6	1465.6
<b>Net interest income</b>	<b>506.0</b>	<b>801.6</b>	<b>1053.4</b>	<b>1724.9</b>	<b>1930.1</b>	<b>2339.8</b>
<b>Non interest income</b>	<b>11.8</b>	<b>65.0</b>	<b>72.1</b>	<b>136.5</b>	<b>161.8</b>	<b>194.5</b>
<b>Operating income</b>	<b>517.9</b>	<b>866.6</b>	<b>1125.5</b>	<b>1861.4</b>	<b>2092.0</b>	<b>2534.3</b>
Operating expense	203.1	294.0	426.6	670.1	753.1	912.3
<b>PPOP</b>	<b>314.8</b>	<b>572.6</b>	<b>698.9</b>	<b>1191.3</b>	<b>1338.9</b>	<b>1621.9</b>
Provisions	-13.4	74.9	237.3	528.9	375.6	366.9
<b>PBT</b>	<b>328.2</b>	<b>497.7</b>	<b>461.6</b>	<b>662.4</b>	<b>963.3</b>	<b>1255.0</b>
Tax expense	115.7	176.0	126.1	166.7	242.5	315.9
<b>PAT</b>	<b>212.5</b>	<b>321.8</b>	<b>335.5</b>	<b>495.7</b>	<b>720.8</b>	<b>939.1</b>

Source: Company data, KRChoksey Research

BALANCE SHEET (INR Crores)	FY 2018	FY 2019	FY 2020	FY 2021E	FY 2022E	FY 2023E
<b>SOURCES OF FUNDS</b>						
Share capital	128.4	143.6	144.0	144.0	144.0	144.0
Reserves & surplus	1309.1	2221.5	2590.2	3085.9	3806.7	4745.9
Minority interest	0.0	0.0	108.9	119.8	131.8	144.9
<b>Shareholders' funds</b>	<b>1437.5</b>	<b>2365.1</b>	<b>2843.1</b>	<b>3349.7</b>	<b>4082.5</b>	<b>5034.8</b>
Borrowings	3623.5	4866.6	9539.7	11224.8	13366.8	15945.6
Trade Payables	35.1	103.7	108.7	119.5	131.5	144.6
Other liabilities & provisions	6.5	21.8	98.1	12.2	83.0	109.8
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>5102.6</b>	<b>7357.2</b>	<b>12589.5</b>	<b>14706.2</b>	<b>17663.7</b>	<b>21234.8</b>
<b>USES OF FUNDS</b>						
Cash and cash equivalent	143.1	615.6	717.6	861.2	1033.4	1240.1
Investments	0.2	0.2	45.6	45.6	45.6	45.6
Advances	4895.5	6602.8	11098.9	12985.7	15647.8	18855.6
Fixed & other assets	62.2	138.5	727.3	813.8	937.0	1093.5
<b>TOTAL ASSETS</b>	<b>5101.0</b>	<b>7357.1</b>	<b>12589.4</b>	<b>14706.2</b>	<b>17663.7</b>	<b>21234.8</b>

Source: Company data, KRChoksey Research

# CreditAccess Grameen Ltd.

KEY RATIOS	FY 2018	FY 2019	FY 2020	FY 2021E	FY 2022E	FY 2023E
<b>Growth rates</b>						
Advances (%)	72.4%	34.9%	68.1%	17.0%	20.5%	20.5%
Borrowings (%)	34.9%	34.3%	96.0%	17.7%	19.1%	19.3%
Total assets (%)	53.2%	44.2%	71.1%	16.8%	20.1%	20.2%
NII (%)	46.3%	58.4%	31.4%	63.7%	11.9%	21.2%
Pre-provisioning profit (%)	39.8%	81.9%	22.1%	70.5%	12.4%	21.1%
PAT (%)	182.3%	51.4%	4.3%	47.7%	45.4%	30.3%
<b>Balance sheet ratios</b>						
Advances/Total assets (%)	96%	90%	88%	88%	89%	89%
Leverage (x)	1.4x	1.5x	1.3x	1.3x	1.3x	1.3x
<b>Operating efficiency</b>						
Cost/income (%)	39.2%	33.9%	37.9%	36.0%	36.0%	36.0%
Opex/ average assets (%)	4.8%	4.7%	4.3%	4.9%	4.7%	4.7%
Opex/GLP (%)	4.1%	4.5%	3.8%	5.2%	4.8%	4.8%
<b>Profitability</b>						
NIM (%)	13.1%	13.9%	11.9%	14.3%	13.4%	13.5%
ROAA (%)	5.0%	5.2%	3.4%	3.6%	4.5%	4.8%
ROAE (%)	20.7%	16.9%	12.9%	16.0%	19.4%	20.6%
<b>Asset quality</b>						
Gross NPA (%)	0.76%	0.58%	1.57%	1.80%	1.80%	1.80%
Net NPA (%)	0.03%	0.00%	0.00%	0.20%	0.20%	0.20%
<b>Per share data / Valuation</b>						
EPS (INR)	16.5	22.4	23.4	34.5	50.1	65.3
BV (INR)	111.9	164.8	198.1	232.8	283.7	349.9
ABV (INR)	111.8	162.8	195.3	231.0	281.6	347.3
P/E (x)	18.6x	21.7x	14.4x	15.4x	10.6x	8.1x
P/BV (x)	3.4x	3.0x	1.7x	2.3x	1.9x	1.5x
P/ABV (x)	3.4x	3.1x	1.7x	2.3x	1.9x	1.5x

Source: Company data, KRChoksey Research

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## Rating Legend (Expected over a 12-month period)

Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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