Equity Research
April 1, 2022
BSE Sensex: 58569

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Financials

Company update and target price revision

Target price: Rs1,200

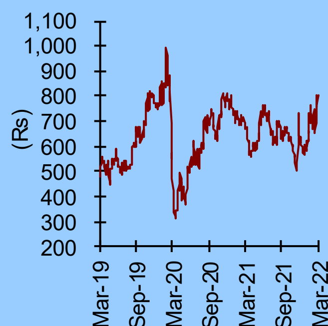
Target price revision
Rs1,200 from Rs900

Shareholding pattern

	Jun '21	Sep '21	Dec '21
Promoters	74.0	73.9	73.9
Institutional investors	19.4	19.6	18.9
MFs and others	7.1	8.6	10.0
FIIs	12.3	11.0	8.9
Others	6.6	6.5	7.2

Source: BSE

Price chart



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INDIA

CreditAccess Grameen

BUY
Maintain

Harmonised MFI regulation to strengthen CA Grameen's market positioning; risk-based pricing to improve profitability

Rs849

CA Grameen's (CAGL) journey from the status of a project under the T. Muniswamappa Trust, an NGO in South Bangalore, in 1999, to the largest NBFC-MFI in India as of Dec'21, with consolidated AUM of Rs146bn and borrower base of ~3.7mn, reflects its agility and resilience across business cycles. But its journey from ~Rs150bn to ~Rs300bn AUM over the next 3 years would be critical, given no historical precedence of any standalone NBFC-MFI delivering >20% AUM growth and >4% RoA on such scale. However, we believe the harmonised MFI regulation (refer our note: Link) would strengthen market position of NBFC-MFI players. Taking cognisance of expanded addressable market for NBFC-MFIs, the directive to adopt risk-based pricing and CAGL's competitive loan pricing (lowest amongst NBFC-MFIs at 19.15%), healthy capital positioning (CAR at 25%), we believe the company would be the biggest beneficiary of revised MFI regulation. Maintain BUY with a revised target price of Rs1,200 (earlier: Rs900), valuing the stock at 4x FY23E BVPS *vs* 2.5x earlier. We raise the multiple on the back of structural high-growth opportunity and improving visibility on achieving ~20% RoE by FY24E/FY25E. Our target multiple is still >10% lower than the historical peak multiple.

- **Earnings upgrade by 8% / 14% in FY23 / FY24E respectively.** We revise our earnings estimate by 8% for FY23E and 14% for FY24E, as we now model higher AUM growth at 24% in both FY23E and FY24E *vs* 20% earlier. Competitive pricing, CAGL's incremental market share at 22% as of Sep'21 and adequate capital (CAR at 25%) reinforce our view of the company delivering industry-leading growth in coming years. We also hike lending yields (currently cal. 18.1%) to cal. 18.5% for FY23E and cal.19% for FY24E, as we expect CAGL to implement risk-based pricing within a couple of months. We continue to model higher credit cost at 1.8% for both FY23E and FY24E.

- **CAGL commands incremental market share of >20% as of Sep'21 in MFI credit.** While it remained cautious during covid phase due to lower collections and calibrated reopening of the economy, it pushed the growth accelerator from Jun'21 onwards. The same reflects in its *incremental credit market share in AUM at >20% vs outstanding market share of 6% as of Sep'21.* Further, CAGL laid down its aspirational goal of *becoming the preferred financial partner for 10mn low-income households lacking access to credit, by 2025.*

- **Expanded target market and its leadership position in MFI space to ensure industry-leading growth going ahead.** CAGL (on standalone basis) delivered robust 33% AUM CAGR between FY17-9MFY22, driven by customer growth at 15% CAGR during the same period. Considering the expanded target market post MFI regulation harmonisation (Link) and its deep distribution network (~1,600 branches), we expect CAGL to deliver a robust 23% CAGR over FY21-FY24E.

Market Cap	Rs132bn/US$1.7bn
Bloomberg	CREDAG IN
Shares Outstanding (mn)	155.9
52-week Range (Rs)	857/503
Free Float (%)	26.1
FII (%)	8.9
Daily Volume (US$'000)	2,417
Absolute Return 3m (%)	42.1
Absolute Return 12m (%)	26.7
Sensex Return 3m (%)	0.7
Sensex Return 12m (%)	19.5

Year to Mar	FY21	FY22E	FY23E	FY24E
NII (Rs bn)	15.3	16.9	21.3	27.6
Net Profit (Rs bn)	1.3	3.0	7.3	9.7
EPS (Rs)	8.9	19.4	47.0	62.5
% Chg YoY	(60.9)	118.2	141.8	33.0
BVPS (Rs)	237.4	256.8	303.8	366.2
P/E (x)	89.9	41.2	17.0	12.8
P/BV (x)	3.4	3.1	2.6	2.2
GNPA (%)	4.4	6.0	3.3	2.7
RoAuM (%)	1.0	2.0	4.0	4.3
RoE (%)	4.1	7.9	16.8	18.6

- **Risk-based pricing approach to improve profitability.** Under the earlier pricing regime, lending yield was determined on the basis of 10% spread over borrowing cost, hence pricing was not appropriately capturing the structural upmove in normalised credit over a period. As a result, NBFC-MFIs like CAGL were following formula-based pricing instead of risk-based pricing. Considering the structural upmove in normalised credit cost from 20-25bps during pre-demonetisation to 60-70bps pre-covid, we expect ~100bps increase in pricing in the near term.

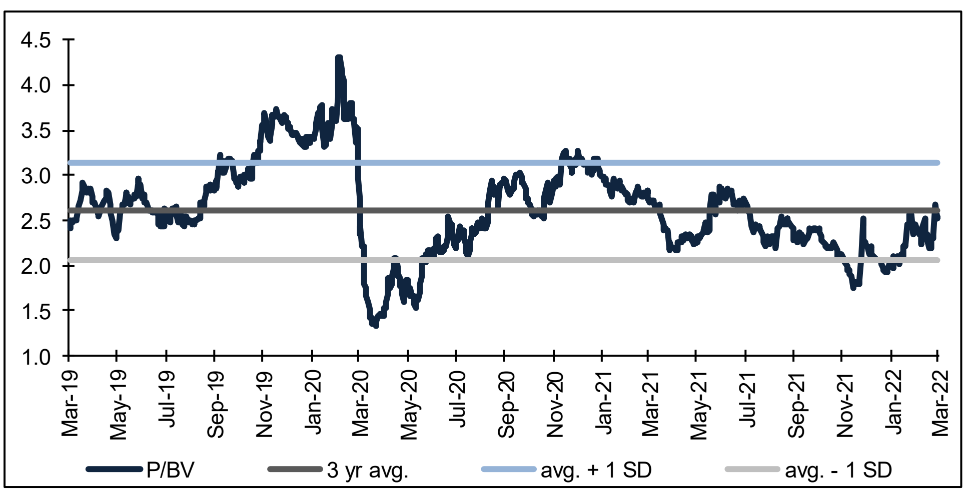
- **Scope to leverage existing customer base and diversify asset mix.** As per the revised MFI regulation, NBFC-MFIs are allowed to build non-MFI assets up to 25%. This would provide an opportunity to leverage existing customer base, especially the ones who have completed multiple loan cycles, by offering other retail products like gold loan, 2W, LAP, etc. Incremental focus would be on improving product per customer, which currently stands at 1.5x, and is predominantly driven by non-lending products.

- **Harmonised MFI regulation to ensure successful execution of *Vision 2025*.** CAGL, post spending over two decades in the microfinance space, laid down its aspirational goal of becoming the preferred financial partner for 10mn low-income households lacking access to credit, by 2025. CAGL is piloting various new innovative products (e.g. payment products, saving & investment products via partnership, insurance, etc.) designed based on the evolving needs of its core target customer base. Overall, in the medium term, it expects AUM growth to remain strong at 25-30% to be driven by 10-20% customer growth.

- **Geographical diversification to remain key strategic goal.** CAGL has always believed in contiguous expansion rather than building pan-India network in short term. Hence, its top-3 states' (MH, TN & KTK) contribution still remains higher at ~80%+ in FY21. But the company intends to reduce it to 60-65% by 2025 as a part of its *2025 Vision*, CAGL has already identified new growth states including MP, Chhattisgarh, Rajasthan, etc.

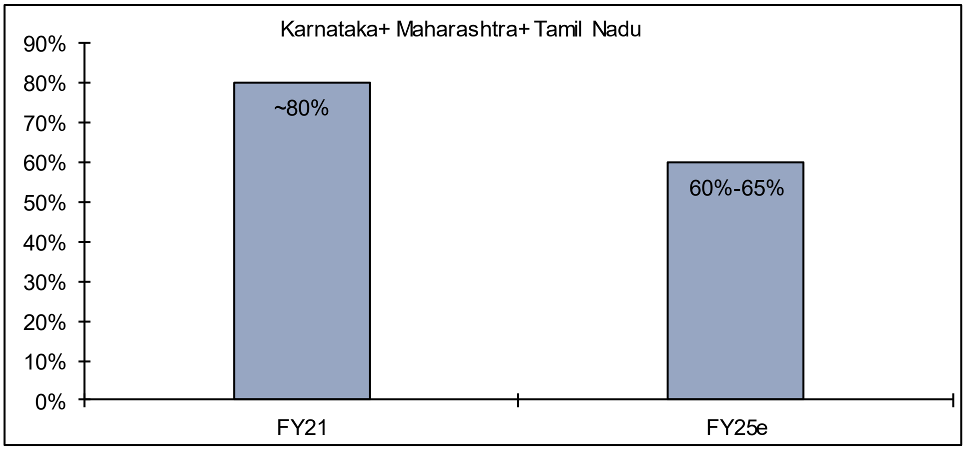
- **Valuation.** After successfully navigating the covid phase, CAGL is geared up for the next phase of its organisational journey, aiming at: i) diversifying revenue stream, ii) gradually scaling-up the secured portfolio, iii) leveraging existing capabilities and strengths to diversify product and service offerings. We maintain BUY with a revised TP of Rs1,200 (earlier: Rs900), valuing the stock at 4x FY23E BVPS vs 2.5x earlier, considering the structural high-growth opportunity and improving visibility on it achieving RoE of ~20% by FY24E/FY25E. **Key Risk** – i) Stress unfolding higher than expected, and ii) lower-than-expected AUM growth.

Chart 1: Our target multiple of 4x FY23E BVPS (adjusted for goodwill) is still >10% lower than historical peak multiple



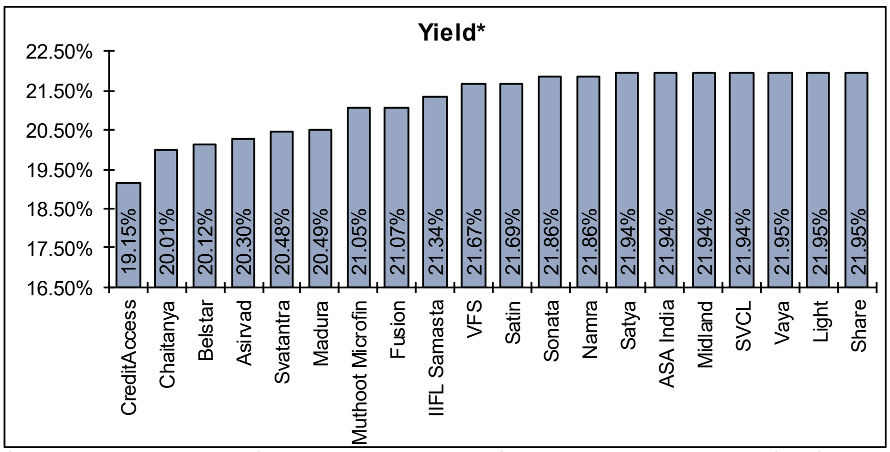
Source: Company data, I-Sec research

Chart 2: Incremental market share in MFI credit stood at 22% as of Sep'21 *vs* o/s market share of 6%; the same reflects CA Grameen's leadership position



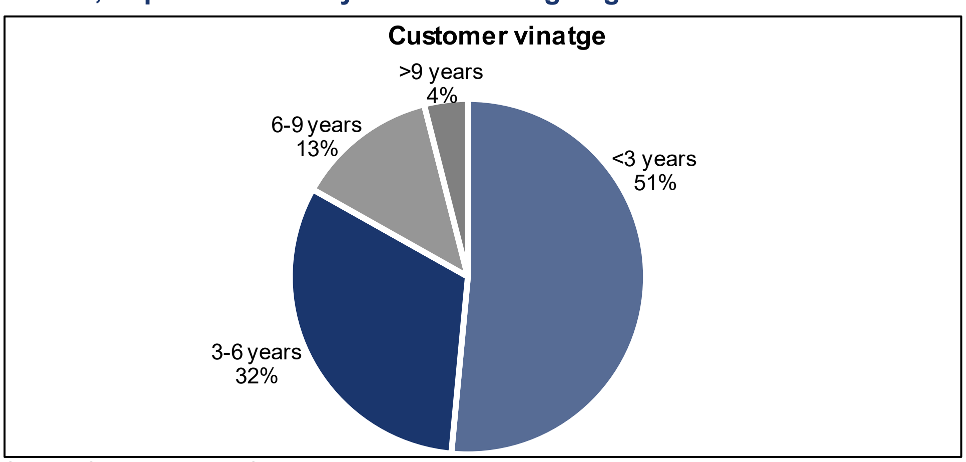
Source: Company data, I-Sec research

Chart 3: Player-wise yields on MFI loans as of Sep'21; lenders with lowest yields (~19.15% for CA Grameen) could plan to realign pricing as per industry average (~21.25%)



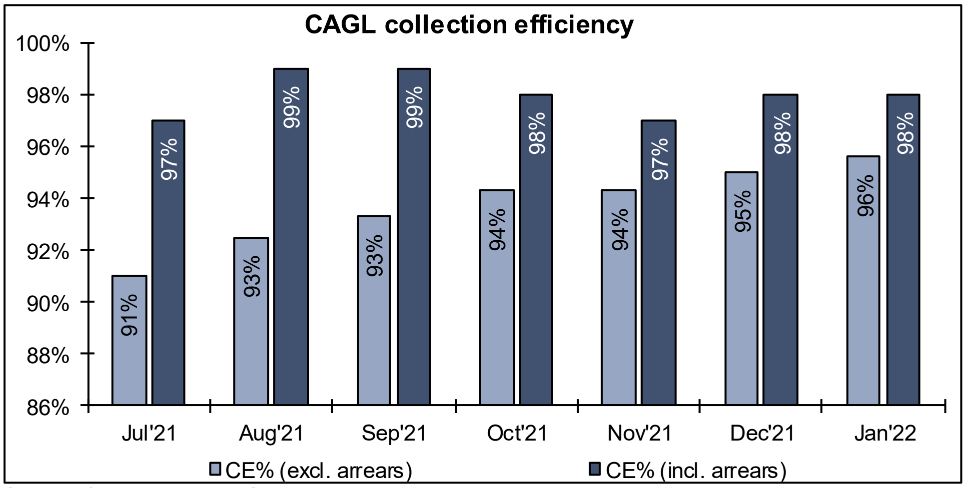
Source: Micrometer *Weighted average rate of interest charged during the Q2 of FY22
Note: Out of total 20 players, Spandana, Annapurna and Arohan are not taken as their data is not available. Hence, next 3 big players are taken for above graph.

Chart 4: The share of borrowers with >3 years vintage stood at 48% as of Dec'21; improves visibility on cross-sell going forward



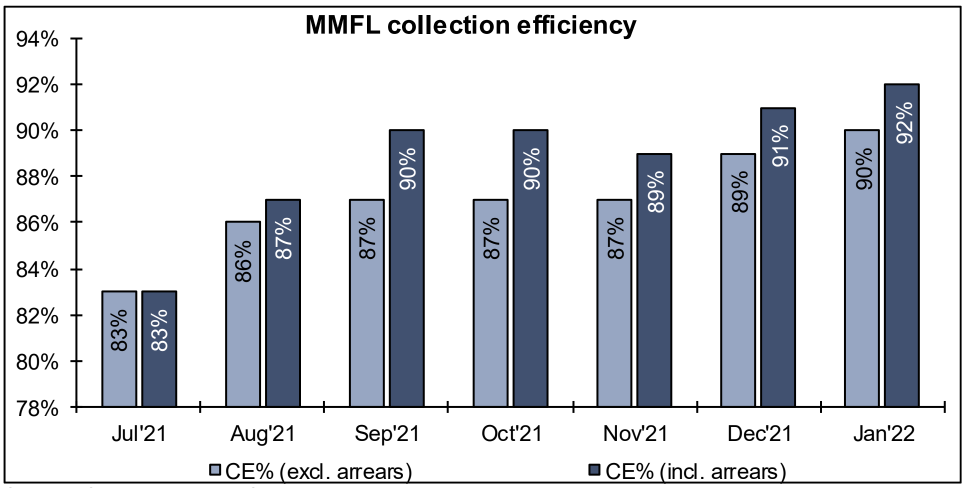
Source: Company data, I-Sec research

Chart 5: Collection efficiency (CE) in Jan'22 for CAGL, adjusted for non-paying customers, is near-normal at ~99%



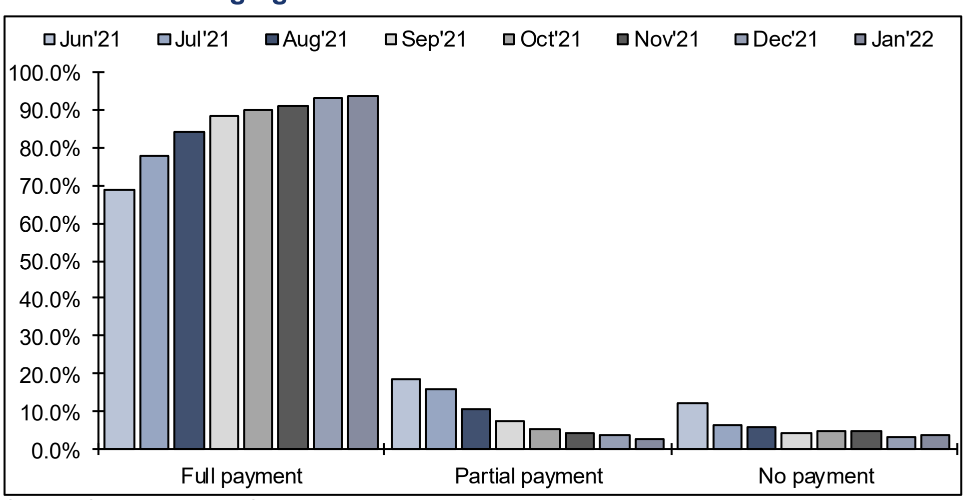
Source: Company data, I-Sec research

Chart 6: MMFL's CE in Jan'22, adjusted for non-paying customers, stood at ~91%



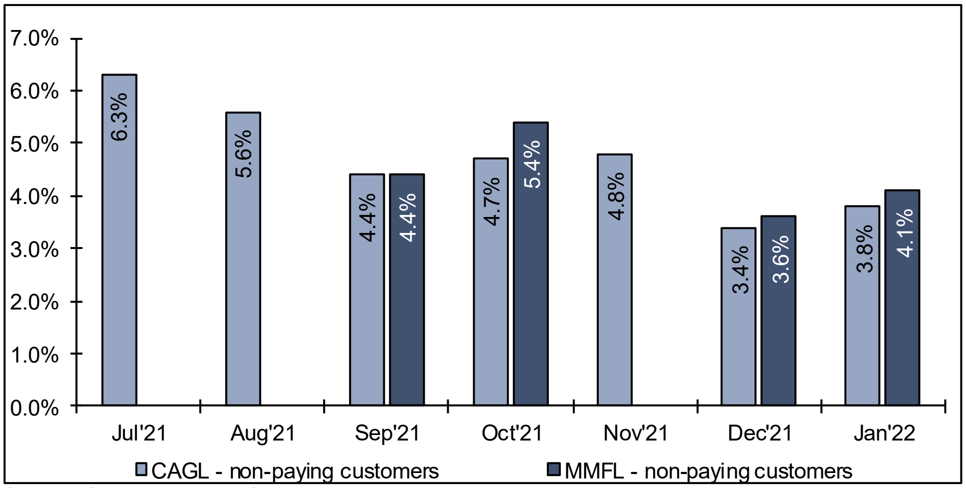
Source: Company data, I-Sec research

Chart 7: Encouraging customer activation rate…



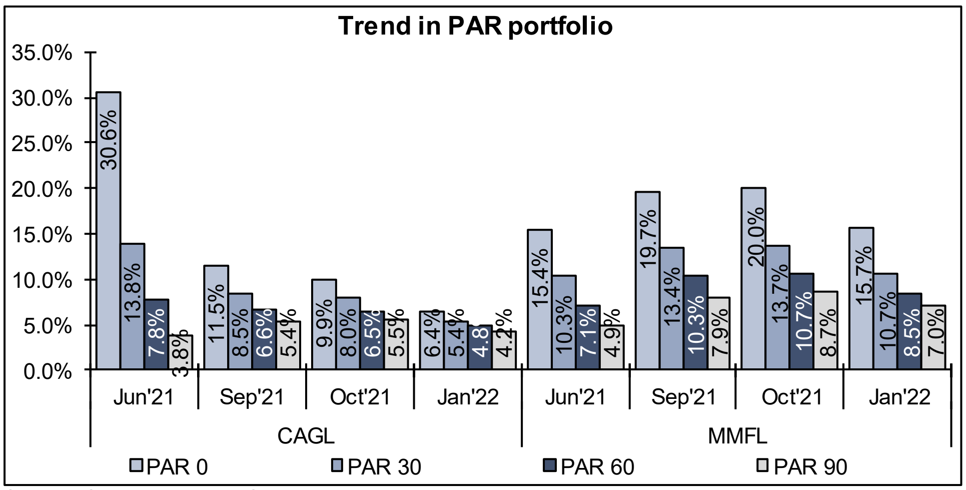
Source: Company data, I-Sec research

Chart 8: … resulted in steady decline in non-paying customer pool for CAGL



Source: Company data, I-Sec research

Chart 9: Forward flow from Jun'21 PAR 0 to PAR 90 portfolio, for CAGL has been significantly lower



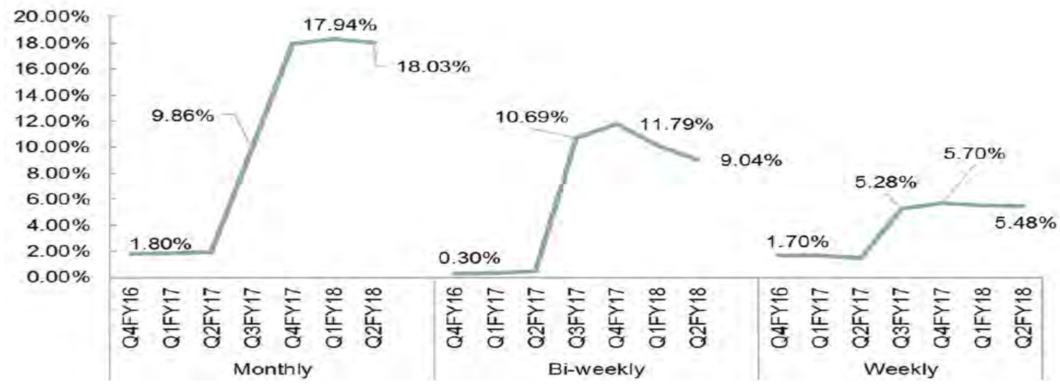
Source: Company data, I-Sec research

Table 1: Business resilience – performed relatively better across cycles

ROA Tree (%)	FY16	FY17	FY18	FY19	FY20	FY21
Yield on AuM	17.9	22.0	19.8	19.4	16.5	16.8
Other income	2.7	0.2	0.3	1.0	0.6	1.1
Cost of Funds (Interest Expended/Avg. BS)	9.2	9.9	8.2	6.7	5.8	6.7
Net Interest Margin	8.7	12.1	11.9	13.8	11.3	11.1
Operating Costs (Opex/ Avg. Total Assets)	5.1	5.0	4.7	4.7	4.3	4.2
Cost to Income (Opex/Net Revenue)	44.5	40.7	39.2	34.2	38.0	38.1
Credit cost	0.7	3.9	-0.3	1.2	2.5	6.0
RoA	3.7	2.5	4.9	5.0	3.4	1.0
RoE (Avg. networth)	19.9	14.0	20.0	16.6	13.2	4.1
Leverage (BS/NW)	6.11	5.16	3.56	3.11	4.60	4.08

Source: Company data, I-Sec research

Chart 10: Historically, players with weekly collection perform better



Source: Equifax, CRISIL Research, I-Sec research

Financial summary

Table 2: Profit and Loss statement

(Rs mn, year ending March 31)

Year to March	FY21	FY22E	FY23E	FY24E
Interest income	23,193	27,093	33,902	42,843
Interest charges	9,287	11,021	13,539	16,433
Net interest income	**15,320**	**16,864**	**21,341**	**27,625**
NII growth	*36%*	*10%*	*27%*	*29%*
Net revenues	15,374	16,918	21,395	27,678
Operating expense	**5,856**	**6,866**	**8,593**	**10,921**
- Employee exp	3,800	4,272	5,138	6,299
YoY growth	*45%*	*12%*	*20%*	*23%*
- Other opex	1,585	2,025	2,752	3,750
- Depreciation /amortisation	471	569	703	872
Pre-provision profit	**9,518**	**10,052**	**12,802**	**16,757**
Provisions	7,714	6,016	3,042	3,777
PBT	1,804	4,036	9,760	12,980
Taxes	490	1,016	2,457	3,267
PAT (excl. extraordinaries)	**1,314**	**3,020**	**7,303**	**9,713**

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

Year to March	FY21	FY22E	FY23E	FY24E
Share capital	1,555	1,555	1,555	1,555
Reserves and surplus	35,360	38,380	45,683	55,396
Shareholders' fund	1,10,243	1,33,777	1,62,154	1,97,039
Total borrowings	3,435	7,044	6,832	6,627
Sources of funds	**1,50,592**	**1,80,756**	**2,16,225**	**2,60,617**
Loans & advances	1,17,205	1,52,672	1,88,585	2,34,164
Cash and cash equivalents	24,844	19,883	19,460	18,243
DTA	1,041	904	1,081	1,303
Fixed assets	242	254	266	280
Other current assets	7,261	7,044	6,832	6,627
Uses of funds	**1,50,592**	**1,80,756**	**2,16,225**	**2,60,617**

Source: Company data, I-Sec research

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

Table 4: Key ratios

(Year ending March 31)

	FY21	FY22E	FY23E	FY24E
Growth Ratios (YoY %)				
Net Interest Income	36.1	10.1	26.5	29.4
Opex	36.7	17.3	25.2	27.1
PPoP	36.2	5.6	27.4	30.9
PAT	-60.8	129.8	141.8	33.0
AuM	13.3	20.8	23.5	24.2
Asset quality Ratios (%)				
GNPA %	4.4	6.0	3.3	2.7
NNPA %	0.0	1.8	0.0	0.0
PCR	100	70	100	100
Profitability Ratios (%)				
RoA	1.0	1.8	3.7	4.1
RoAuM	1.0	2.0	4.0	4.3
RoE	4.1	7.9	16.8	18.6
Cost/AuM	4.6	4.6	4.7	4.8
Employee/AuM	3.0	2.8	2.8	2.8
Other opex/AuM	1.6	1.7	1.9	2.0
Per share data Rs)				
Diluted EPS	8.9	19.4	47.0	62.5
EPS growth (%)	-60.9	118.2	141.8	33.0
Book value per share	237.4	256.8	303.8	366.2
BVPS growth (%)	25.0	8.2	18.3	20.6
Valuation				
P/E (x)	89.9	41.2	17.0	12.8
P/B (x)	3.4	3.1	2.6	2.2
ROA Tree				
Yield on AuM	16.8	16.4	17.1	18.0
Other income	1.1	0.5	0.5	0.5
Cost of Funds (Interest Expended/Avg. BS)	6.7	6.7	6.8	6.9
Net Interest Margin	11.1	10.2	10.8	11.6
Operating Costs (Opex/ Avg. Total Assets)	4.2	4.1	4.3	4.6
Cost to Income (Opex/Net Revenue)	38.1	40.6	40.2	39.5
Credit cost	6.0	4.0	1.7	1.7
RoA	1.0	1.8	3.7	4.1
RoE (Avg. networth)	4.1	7.9	16.8	18.6
Leverage (BS/NW)	4.08	4.53	4.58	4.58
Capital Ratios				
Total CAR	27	24	22	22
Tier 1	26	24	22	22
Tier 2	1	0	0	0

Source: Company data, I-Sec research

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