

February 08, 2023

**RESULT REPORT Q3 FY23** | Sector: Financials

# CreditAccess Grameen Limited

## On-track for stronger performances ahead

CRETAG delivered an in-line PAT in Q3 FY23, that reflected stronger GLP growth, higher NII/PPOP and still elevated credit cost. The texture of disbursements remains enthusing, with accelerating pace of new borrower addition (significant new-to-credit within) mainly in newer markets and loan ticket/exposure per borrower under check. The co. delivered RoA/RoE of 4.6%/18.8% (material improvement over Q2 FY23), despite continuance of significant write-off of residual Covid-related stress. With the delivery of enhanced outcomes in Q3, CREDITAG reiterated its annual consolidated performance guidance of 24-25% GLP growth and 4-4.2% RoA/16-18% RoE. The co. has taken requisite price actions to factor relatively moderate experience of collections (delinquency flow fwd.) in MMFL's portfolio.

### GLP grows 7.5% qoq/22% yoy; significant ramp-up of disbursements in Q4 FY23

Disbursement growth is being incrementally driven by new borrower additions. The company added 3.05 lac borrowers in the quarter (2.84 lacs in Q2), and the consolidated customer base grew 3.7% qoq (CA Grameen 4.4% qoq, MMFL 0.6% qoq). About 30-35% of customers acquired are new-to-microfinance/credit. About 47% of the new borrower addition has been from outside of the Top 3 states (KTK, MH and TN) in the past 12 months. Adjusted for the write-offs, the borrower growth was 17%/14% yoy in CA Grameen/MMFL. The co. is on course to deliver the required steep disbursements jump in the current quarter for achieving the full-year GLP growth guidance of 24-25%.

### NIM could materially expand over the medium term

NIM was flat qoq, despite portfolio yield improvement of 50 bps qoq, on account of 40 bps increase in CoF and higher average balance sheet liquidity during the quarter. Adjusting for impact of the latter, the NIM would have been better by 20 bps. Notably, the higher increase in CoF (versus seen during Q2) was primarily on account of higher proportion (49%) of long-term borrowings (foreign ECBs & NCDs and domestic public NCD) in incremental funding that came at a higher cost. The incremental CoF from Banks & other FIs was stable on sequential basis. The incremental lending rate averaged 21.5% in Q3 FY23 versus 20.8% in the preceding quarter and reflects the upward revision in risk-based pricing. The large gap of nearly 200 bps between disbursement and portfolio pricing and predominant share of domestic bank borrowings (relatively reasonable costing) in incremental funding would underpin NIM expansion over the medium term.

### Asset quality has stabilized; credit cost to fall in FY24

The write-off of the remaining Covid-related stress continued, particularly in MMFL. Overall quantum of loans written-off were Rs1.31bn v/s Rs1.63bn in Q2. The collection efficiency of 98% (w/o arrears) in the context of PAR/GNPL of 3%/2% at the start of the quarter represents full normalization and stabilization of asset quality. Adjusted for write-off, PAR 0 was stable and GNPLs (PAR 60) increased marginally due to flow fwd. from initial buckets. While some more Covid-related provisioning/write-off could come in Q4 FY23, the credit cost in FY24 is expected to completely normalize. Stage-2/Stage-3 coverage is healthy at 54%/72% for CA Grameen and 36%/50% for MMFL.

### RoE to be 21-22% in FY24/25; retain BUY

Growth and profitability momentum is estimated to further improve in coming quarters. RoA/RoE in FY24/25 should be much better than the current levels, due to complete normalization of credit cost and full benefit from risk-based pricing. Post recent price correction, the valuation stands at 2.5x 1-year rolling fwd. ABV. The stock has previously traded at multiples of >3.5x in a stable operating environment with 16-18% RoE delivery. This time CREDITAG's RoE delivery would be far superior at 21-22% due to scale and pricing benefits. Remains a BUY with 12m PT of Rs1270.

Reco : **BUY**

CMP : Rs 901

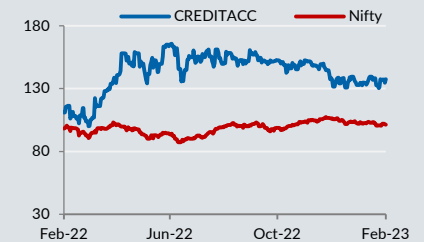
Target Price : Rs 1,270

Potential Return : 41.0%

#### Stock data (as on Feb 07, 2023)

Nifty	17,722
52 Week h/l (Rs)	1154 / 645
Market cap (Rs/USD mn)	138110 / 1667
Outstanding Shares (mn)	156
6m Avg t/o (Rs mn):	154
Div. yield (%):	-
Bloomberg code:	CRETAG IN
NSE code:	CREDITACC

#### Stock performance



	1M	3M	1Y
Absolute return	3.4%	-9.9%	23.7%

#### Shareholding pattern

Promoter	73.7%
FII+DII	22.2%
Others	4.2%

#### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,270	1,300

#### Δ in earnings estimates

	FY23e	FY24e	FY25e
EPS (New)	52.1	75.3	92.9
EPS (Old)	55.0	78.0	92.9
% Change	-5.3%	-3.5%	-

#### Financial Summary

(Rs mn)	FY23E	FY24E	FY25E
Op. income	23,240	29,961	37,158
PPOP	14,600	19,333	24,192
Net profit	8,116	11,729	14,474
Growth (%)	127.3	44.5	23.4
EPS (Rs)	52.1	75.3	92.9
ABVPS (Rs)	286.9	362.1	455.0
P/E (x)	17.3	12.0	9.7
P/ABV (x)	3.1	2.5	2.0
ROE (%)	18.5	21.8	21.6
ROA (%)	4.2	5.0	5.0

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## Exhibit 1: Result table

(Rs mn)	Q3 FY23	Q2 FY23	% qoq	Q3 FY22	% yoy
Total Operating Income	9,079	8,122	11.8	6,874	32.1
Interest expended	(3,142)	(2,732)	15.0	(2,391)	31.4
Net Interest Income	5,937	5,390	10.1	4,483	32.4
Total Income	5,955	5,411	10.1	4,506	32.2
Operating expenses	(2,160)	(2,067)	4.5	(1,770)	22.0
PPOP	3,795	3,344	13.5	2,736	38.7
Provisions	(894)	(1,054)	(15.1)	(1,179)	(24.2)
PBT	2,900	2,290	26.6	1,557	86.3
Tax	(733)	(529)	38.6	(387)	89.6
PAT	2,168	1,762	23.0	1,170	85.3

Source: Company, YES Sec

## Exhibit 2: State-wise GLP mix

(%)	Q3 FY23	Q2 FY23	chg qoq	Q3 FY22	chg yoy
Karnataka	34.7	35.2	(0.5)	36.5	(1.8)
Maharashtra	21.0	21.1	(0.1)	22.3	(1.3)
Tamil Nadu	20.8	20.9	(0.1)	20.7	0.1
Madhya Pradesh	6.6	6.7	(0.1)	7.7	(1.1)
Others	16.9	16.1	0.8	12.8	4.1

Source: Company, YES Sec

## Exhibit 3: Consolidated highlights

Rs mn	Q3 FY23	Q2 FY23	% qoq	Q3 FY22	% yoy
GLP (Rs mn)	177,860	165,390	7.5	145,870	21.9
Total equity (Rs mn)	47,070	44,930	4.8	39,910	17.9
Active borrowers (lacs)	39.4	38.0	3.7	37.4	5.3
Branches	1,727	1,684	2.6	1,593	8.4
Employees	16,807	16,018	4.9	15,483	8.6
RoA (%)	4.6	4.0	0.6	3.0	1.6
RoE (%)	18.8	16.1	2.7	11.9	6.9
GNPA (%)	1.7	2.2	(0.5)	6.0	(4.3)
Provisioning (%)	2.0	2.5	(0.4)	4.7	(2.7)
D/E (x)	2.9	2.7	0.2	2.9	-

Source: Company, YES Sec

## Exhibit 4: CAGL Standalone - Key ratios

(%)	Q3 FY23	Q2 FY23	chg qoq	Q3 FY22	chg yoy
NIM	12.0	12.1	(0.1)	11.7	0.3
C/I	35.3	36.9	(1.6)	36.1	(0.8)
Opex/GLP	5.0	5.0	-	4.7	0.3
GNPL	1.5	1.7	(0.3)	5.5	(4.0)
RoA	4.9	4.2	0.7	3.8	1.1
RoE	17.8	15.1	2.7	13.6	4.2

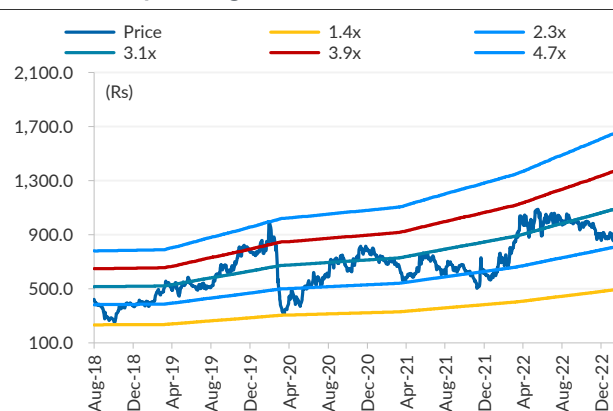
Source: Company, YES Sec

**Exhibit 5: MMFL Standalone – Key ratios**

(%)	Q3 FY23	Q2 FY23	chg qoq	Q3 FY22	chg yoy
NIM	10.4	10.4	-	10.2	0.2
C/I	37.0	40.2	(3.2)	51.6	(14.6)
Opex/GLP	4.9	5.4	(0.5)	6.0	(1.1)
GNPL	2.9	4.4	(1.5)	8.6	(5.7)
RoA	2.9	2.8	0.1	(1.5)	4.4
RoE	20.9	20.0	0.9	(9.6)	30.5

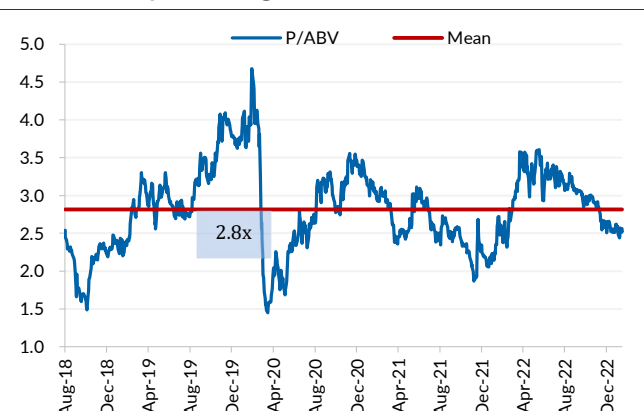
Source: Company, YES Sec

**Exhibit 6: 1-yr rolling P/ABV band**



Source: Company, YES Sec

**Exhibit 7: 1-year rolling P/ABV vis-a-vis the mean**



Source: Company, YES Sec

## FINANCIALS

### Exhibit 8: Balance Sheet

Y/e 31 Mar (Rs m)	FY21	FY22	FY23E	FY24E	FY25E
<b>Equity and Liabilities</b>					
Equity Share Capital	1,556	1,559	1,559	1,559	1,559
Other Equity	35,360	38,218	46,334	58,063	72,538
<b>Share-holders fund</b>	<b>36,916</b>	<b>39,777</b>	<b>47,893</b>	<b>59,622</b>	<b>74,096</b>
Non-controlling Interest	1,048	984	984	984	984
<b>Financial Liabilities</b>	<b>112,260</b>	<b>132,688</b>	<b>160,528</b>	<b>198,932</b>	<b>248,480</b>
Trade payables	2,017	2,590	3,108	3,730	4,476
Debt Securities	16,750	14,181	17,159	21,277	26,596
Borrowings (Excl. Debt Sec.)	91,637	114,249	138,241	171,418	214,273
Subordinated Liabilities	1,027	777	941	1,166	1,458
Other Financial Liabilities	829	874	1,058	1,312	1,640
<b>Non-Financial Liabilities</b>	<b>379</b>	<b>499</b>	<b>582</b>	<b>685</b>	<b>814</b>
Provisions	255	313	391	488	610
Deferred tax liabilities (net)	114	135	135	135	135
<b>Total Liabilities &amp; Equity</b>	<b>150,602</b>	<b>173,948</b>	<b>209,987</b>	<b>260,223</b>	<b>324,374</b>
<b>Assets</b>					
<b>Financial Assets</b>	<b>143,379</b>	<b>166,460</b>	<b>202,254</b>	<b>252,195</b>	<b>315,988</b>
Cash and Cash Equivalents	23,601	15,806	16,714	18,476	24,127
Bank balances	1,243	1,808	2,170	2,604	3,125
Receivables	0	0	0	0	0
Loans	117,205	147,653	181,998	229,538	286,922
Investments	5	5	6	7	8
Other Financial Assets	1,325	1,188	1,366	1,570	1,806
<b>Non- Financial Assets</b>	<b>7,224</b>	<b>7,487</b>	<b>7,733</b>	<b>8,028</b>	<b>8,386</b>
Current tax assets (Net)	318	323	419	545	709
Deferred tax assets (Net)	1,041	1,325	1,325	1,325	1,325
Property, Plant and Equipment	242	318	382	458	550
Intangible assets	6	31	31	31	31
Goodwill	4,811	4,642	4,642	4,642	4,642
Other Non-Financial Assets	806	849	934	1,027	1,130
<b>Total Assets</b>	<b>150,602</b>	<b>173,948</b>	<b>209,987</b>	<b>260,223</b>	<b>324,374</b>

Source: Company, YES Sec

## Exhibit 9: Income statement

Y/e 31 Mar (Rs m)	FY21	FY22	FY23E	FY24E	FY25E
Operating Income	24,610	27,428	35,497	45,969	57,106
Interest expense	(9,287)	(9,841)	(12,311)	(16,069)	(20,014)
<b>Net interest income</b>	<b>15,323</b>	<b>17,587</b>	<b>23,186</b>	<b>29,901</b>	<b>37,091</b>
Non-interest income	51	73	55	60	66
Total op income	15,374	17,660	23,240	29,961	37,158
Total op expenses	(5,856)	(6,885)	(8,640)	(10,627)	(12,965)
<b>PPoP</b>	<b>9,518</b>	<b>10,775</b>	<b>14,600</b>	<b>19,333</b>	<b>24,192</b>
Provisions	(7,714)	(5,967)	(3,750)	(3,652)	(4,842)
Profit before tax	1,804	4,808	10,850	15,681	19,351
Taxes	(490)	(1,237)	(2,734)	(3,952)	(4,876)
<b>Net profit</b>	<b>1,314</b>	<b>3,571</b>	<b>8,116</b>	<b>11,729</b>	<b>14,474</b>

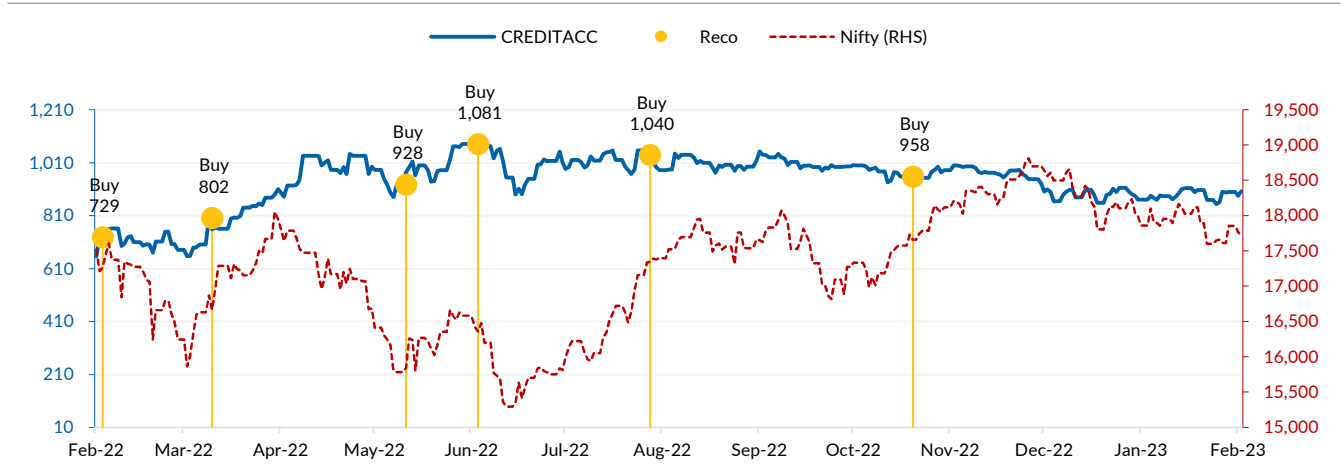
Source: Company, YES Sec

## Exhibit 10: Growth and Ratio matrix

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
<b>Growth matrix (%)</b>					
Net interest income	36.1	14.8	31.8	29.0	24.0
Total op income	36.4	14.9	31.6	28.9	24.0
Op profit (pre-provision)	36.2	13.2	35.5	32.4	25.1
Net profit	(60.8)	171.8	127.3	44.5	23.4
Loans	5.6	26.0	23.3	26.1	25.0
Borrowings + Debt	14.7	18.1	21.0	24.0	25.0
Total assets	19.6	15.5	20.7	23.9	24.7
<b>Profitability Ratios (%)</b>					
NIM	12.0	11.7	12.5	13.0	12.8
Non-interest income /Total income	0.3	0.4	0.2	0.2	0.2
Return on Avg. Equity	4.9	11.2	18.5	21.8	21.6
Return on Avg. Assets	1.1	2.8	4.2	5.0	5.0
<b>Per share ratios (Rs)</b>					
EPS	8.4	22.9	52.1	75.3	92.9
Adj. BVPS	216.9	234.8	286.9	362.1	455.0
<b>Other key ratios (%)</b>					
Loans/Borrowings	107.1	114.3	116.4	118.4	118.4
Cost/Income	38.1	39.0	37.2	35.5	34.9
Credit cost	6.8	4.5	2.3	1.8	1.9
Tax rate	25.2	25.2	25.2	25.2	25.2

Source: Company, YES Sec

## Recommendation Tracker



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**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

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