

CreditAccess Grameen Ltd.



CreditAccess Grameen Ltd. Another strong quarter led by robust business momentum and improved asset quality

CMP INR 1,166	Target INR 1,365	Potential Upside 17.1%	Market Cap (INR Mn) INR 1,85,285	Recommendation BUY	Sector NBFC
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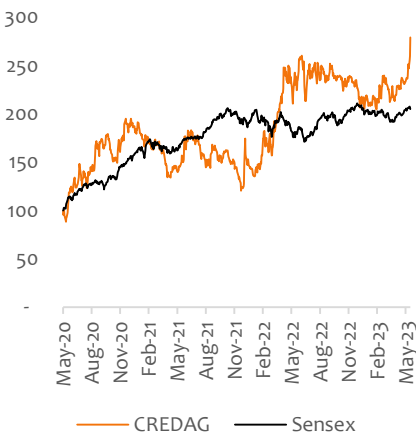
Result Highlights:

- Net Interest Income (NII) for Q4FY23 increased by 32.7% YoY (+21.7% QoQ) at INR 6,898 Mn. NIMs stood at 12.2% in Q4FY23 vs 11.3% in Q4FY22 (an improvement of 90 bps YoY/ 40 bps QoQ).
- Pre-Provisioning Operating Profits (PPOP) grew by 36.3% YoY and 32.5% QoQ to INR 5,029 Mn in Q4FY23. The cost-to-income ratio for Q4FY23 was 30.2% vs 33.8% in Q4FY22 (36.3% in Q3FY23).
- The NBFC registered a net profit of INR 2,966 Mn in Q4FY23. This represents a growth of 86.4% YoY (+36.4% QoQ).
- As of March 31, 2023, the gross loan portfolio grew by 26.7% YoY (+18.2% QoQ) to INR 210.31 Bn.
- Capital Adequacy Ratio (CAR) as of March 31, 2023, stands at 23.6% with the Tier-1 ratio at 22.7%.
- The annualized Return on Assets (RoA) for Q4FY23 stood at 5.5%, compared to 3.6% in Q4FY22 vs 4.5% in Q3FY23.

MARKET DATA

Shares outs (Mn)	156
Equity Cap (INR Mn)	51,070
Mkt Cap (INR Mn)	1,85,285
52 Wk H/L (INR)	1,213/834
Volume Avg (3m K)	165
Face Value (INR)	10.0
Bloomberg Code	CREDAG

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	61,561
NIFTY	18,182

KEY FINANCIALS

INR Mn	FY 2021	FY 2022	FY 2023	FY 2024E	FY 2025E
NII	13,614	15,833	22,338	28,351	35,481
PPOP	9,519	10,776	15,064	19,058	24,152
PAT	1,315	3,571	8,261	11,277	14,454
EPS (INR)	8.5	22.9	52.0	71.0	91.0
BVPS (INR)	244.0	261.5	321.4	392.3	483.3
ABVPS (INR)	233.1	254.1	320.1	385.0	478.7

Source: Company, KRChoksey Research

Higher disbursements led by customer addition boosts GLP growth: As of March 31, 2023, GLP (Gross Loan Portfolio) reported a 26.7% YoY/ 18.2% QoQ growth at INR 2,10,310 Mn. The GLP growth for CREDAG standalone was 27.9% YoY/18.5% QoQ, while for MMFL (Madura Micro-Finance Ltd.), the growth stood at 21.0% YoY/18.5% QoQ before adjusting for write-offs. The disbursement for the quarter was INR 71,710 Mn on a consolidated basis, a robust growth of 23.8% YoY and 47.9% QoQ. CREDAG added 0.55 Mn new customers during the quarter, taking the total borrowers to 4.3 Mn, an improvement of 11.5% YoY/ 8.3% QoQ. The customer additions were led by the scale up of the existing branches and also due to further branch expansion in new geographies during Q4FY23. The company has added 71 branches in new markets for future growth. The company has been planning to further expand its presence in Gujarat, Rajasthan, Jharkhand and Bihar to improve its penetration. CREDAG is also focusing on diversifying its loan portfolio and expanding its presence in two-wheeler loans, individual loans, affordable housing, and gold loans in the upcoming quarters. The management is confident of delivering 25% YoY growth in FY24E on the back of strong customer acquisition.

NIMs expanded QoQ despite increasing interest rates; Overall healthy operating performance: NII grew 32.7% YoY/ 21.8% QoQ to INR 6,898 Mn, led by strong growth in the GLP. NIMs for the quarter stood at 12.2% vs 11.3% in Q4FY22 (vs 11.9% in Q3FY23). The yields improved from 18.5% in Q4FY22 to 19.7% in Q4FY23. The cost of funds reported a marginal decline QoQ at 9.5% in Q4FY23 from 9.6% in Q3FY23 led by restructuring of the borrowing mix. The cost-to-income ratio was 30.2% vs 36.3% in Q3FY23. On a sequential basis, there was a one-off expense in Q3, which led to higher opex in the previous quarter compared to Q4, which led to sequentially strong operating profit growth of 32.5% YoY in Q4FY23.

Asset quality improves sharply: The GNPA (Stage-3)/ NNPA, as of March 31, 2023, stood at 1.71%/ 0.42%, an improvement from 1.71%/ 0.59% as of December 31, 2022. The management outlay of INR 138 Mn has been set aside against the legacy MMFL book of INR 1,310 Mn, which accounts for 0.6% of the overall GLP. The bad debt recovery was INR 168 Mn in Q4FY23 compared to INR 265 Mn in Q4FY22. The credit cost for FY23 stood at 2.1%. The company expects the credit costs to be in the range of 1.6–1.8% in FY24E.

SHARE HOLDING PATTERN (%)

Particulars	Mar-23	Dec-22	Sep-22
Promoters	73.7	73.7	73.9
FIIIs	9.7	9.6	9.3
DIIIs	12.3	12.1	12.6
Others	4.4	4.2	4.2
Total	100.0	100.0	100.0

26.0%

NII CAGR between FY23 and FY25E

32.3%

PAT CAGR between FY23 and FY25E

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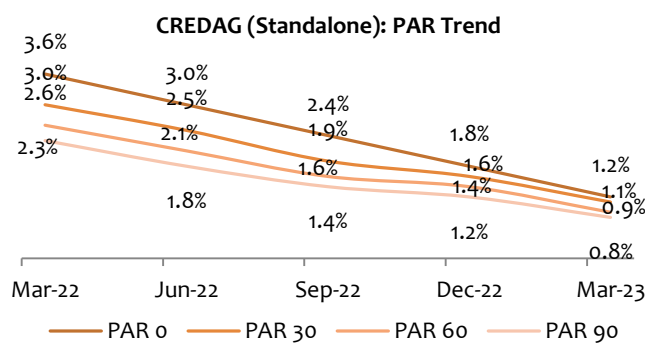
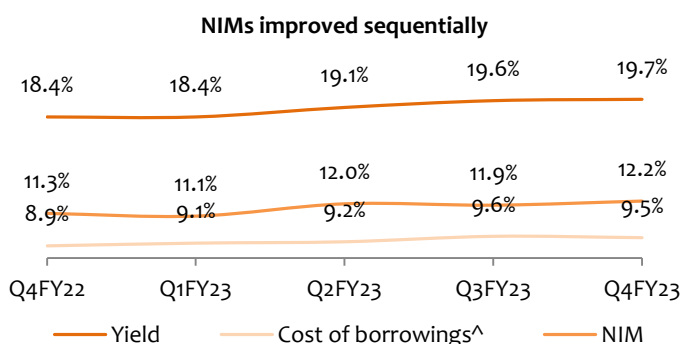
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Key Concall Highlights:

- CREDAG recorded the highest ever quarterly disbursement of INR 71,710 Mn, supported by robust customer additions. In FY21 & FY22, the renewals and new business originations happened in the second half due to COVID-19. Hence, the renewals are also stacked in the second half of FY23.
- The National Company Law Tribunal bench in Bangalore approved the CREDAG-MMFL merger on February 15, 2023. Going forward, the NBFC will report all operational and financial parameters on a consolidated basis only.
- CREDAG has added 167 branches during FY23, the majority in newer geography, leading to a total brand network of 1,786, spread across 352 districts in 14 states.
- The NBFC is gaining healthy traction in newer geographies, where it foresees gaining substantial market share in the coming years.
- NIMs improved sequentially in Q4FY23 at 12.2%, which is one of the most competitive in the microfinance industry. It is expected to remain in the range of 12% to 12.2% going forward.
- Despite the repo rate rising by 250 bps in the last 12 months, the judicious mix of replacing various funding avenues has led to an average cost of borrowing increase of nearly 60 bps to 9.5%, compared to 8.9% at the end of March 2022.
- ICRA has also upgraded CREDAG's credit rating to AA- stable outlook from A+, positive outlook, given its asset quality and earning profile. It is now rated by both ICRA and India Rating with AA- stable outlook, the highest standalone rating in the microfinance industry.
- Assuming a stable operating environment, CREDAG looks forward to achieving loan portfolio growth of 24% to 25% YOY in FY24E.
- Given its strong hold on borrowing costs, the NBFC maintains its NIM guidance in the range of 12% to 12.2%, with a cost-to-income ratio between 35% and 36%. It also anticipates a debt cost of 1.6% to 1.8%. Overall, CREDAG aims to achieve a ROA of 4.7% to 4.9% and an ROE of 20% to 21% in FY24E.
- CREDAG estimates around 14–15% customer growth and about 8–10% growth from branch expansion will lead to 24-25% growth in AUM in FY24E. CREDAG has further opportunities for opening more branches in Gujarat, Rajasthan, UP, Bihar, and Jharkhand.
- The company has been focusing on building the non-microfinance segment and expects the contribution to be around 10-12% in the next 4-5 years.
- CREDAG has 82 retail finance branches currently, which are focused on mortgages and Loans Against Property (LAP) as their primary products. The company aims to pilot affordable housing in FY24E. OPEX in Q3FY23 was a little high on account of the fund-raising through NCDs. That expense was part of Q3 only. Thus, compared to this Q4FY23, it looks lower in terms of Opex.
- The credit cost for FY24E is expected to be in the range of 1.6%–1.8% in a stable environment.

Valuation and view: CREDAG reported another stellar performance in terms of robust growth in the business trajectory and improved asset quality. The company saw its highest ever customer additions during the quarter, owing to its aggressive focus on branch expansion across geographies. Scaling up the non-microfinance segment will support to gain a larger customer base. CREDAG has been working on the borrowing mix to mitigate the risk of increasing interest costs, which is reflected in the sequential improvement of margins. Thus, the management is confident of sustaining the Q4 margins for the full fiscal year FY24E as the company aims to pass on increase in cost of funds to its customers through re-pricing its loan portfolio. On the operating front, the cost-to-income ratio will remain slightly elevated owing to the increased investments in branch and geographical expansion. We remain positive on CREDAG's long-term business outlook, backed by its robust business model, improved operating leverage, and moderation of NPAs. We believe the company will continue to aggressively focus on customer acquisition and benefit from various government initiatives to boost the MFI segment. Since our last update, the stock has appreciated by 21.8%. **Currently, the stock is trading at P/ABV multiples of 3.7x/3.0x/2.4x based on FY23/FY24E/25E ABVPS. We assign P/ABV multiple 2.85x to FY25E ABVPS of INR 478.7 per share and revise our target price upwards to INR 1,365/share (Previous target: INR 1,290) with an upside of 17.1% over the CMP.**



Source: Company, KRChoksey Research

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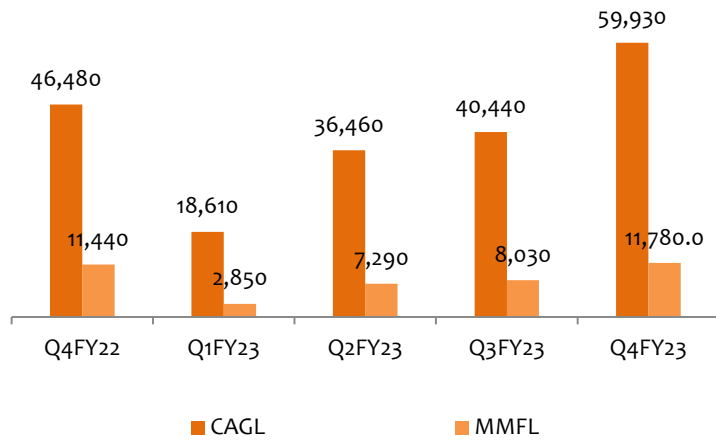
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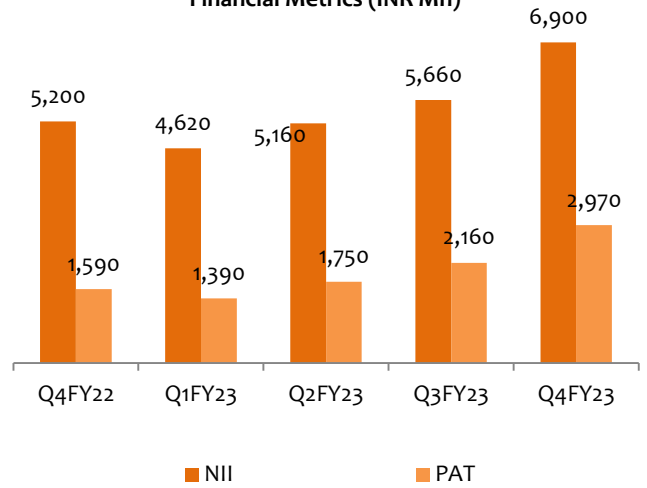
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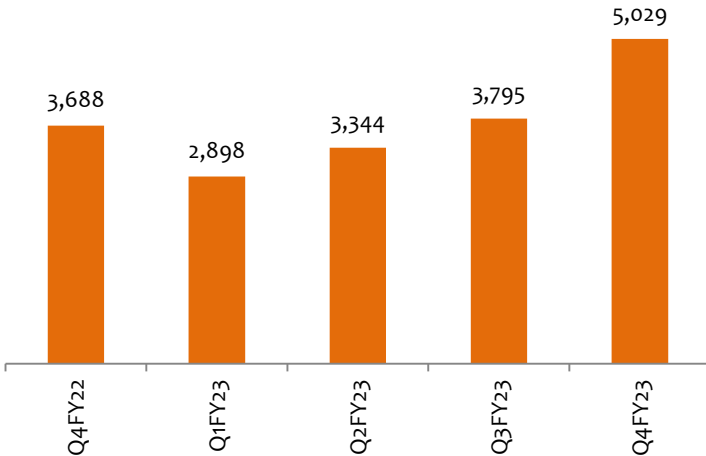
Disbursements (INR Mn)



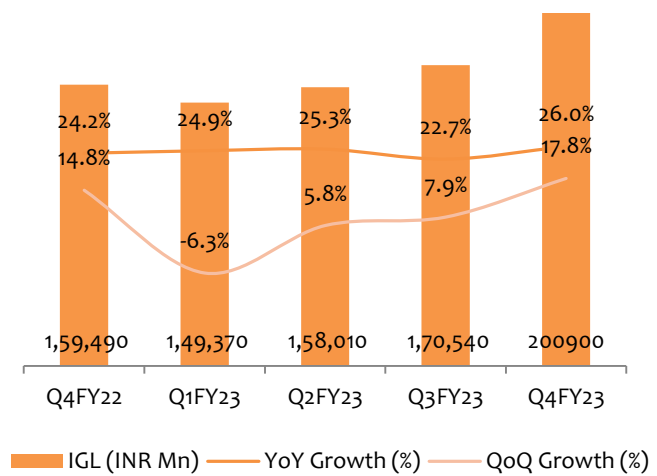
Financial Metrics (INR Mn)



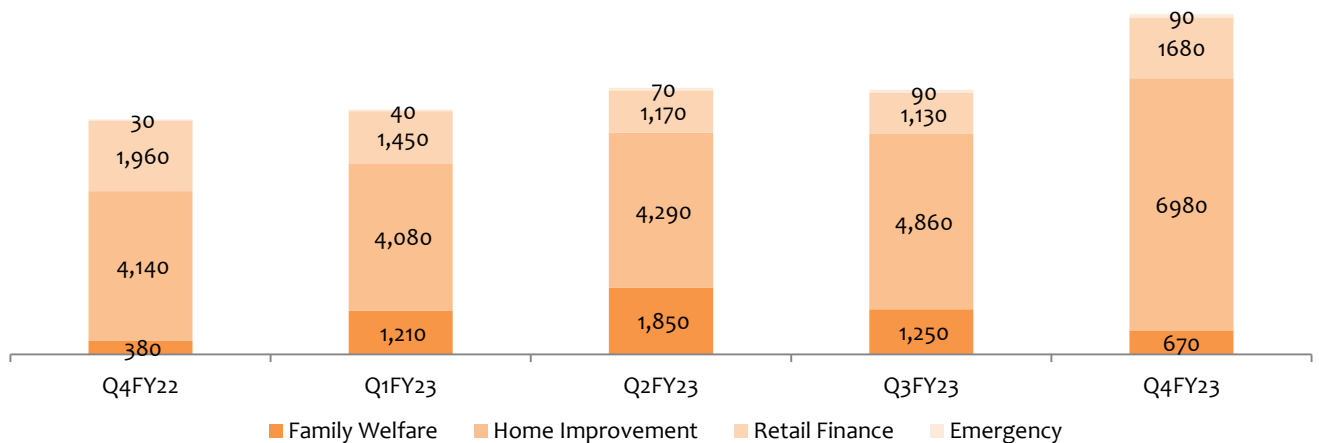
PPOP (INR in Mn)



Consolidated IGL (INR in Mn)



Other Product Mix (INR Mn)



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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement (Consolidated)

INR Mn	FY 2021	FY 2022	FY 2023	FY 2024E	FY 2025E
Interest income	22,901	25,674	34,469	43,676	54,039
Interest expense	9,287	9,841	12,131	15,326	18,558
Net interest income	13,614	15,833	22,338	28,351	35,481
Non interest income	1,760	1,828	1,040	1,092	1,147
Operating income	15,374	17,661	23,378	29,443	36,628
Operating expense	5,856	6,885	8,314	10,385	12,476
PPOP	9,519	10,776	15,064	19,058	24,152
Provisions	7,714	5,967	4,010	4,022	4,880
PBT	1,805	4,808	11,054	15,036	19,272
Tax expense	490	1,237	2,793	3,759	4,818
PAT	1,315	3,571	8,261	11,277	14,454

Exhibit 2: Balance Sheet (Consolidated)

INR Mn	FY 2021	FY 2022	FY 2023	FY 2024E	FY 2025E
SOURCES OF FUNDS					
Share capital	1,556	1,559	1,589	1,589	1,589
Reserves & surplus	35,360	38,218	49,481	60,757	75,211
Minority interest	1,048	984	0	0	0
Shareholders' funds	37,964	40,761	51,070	62,346	76,800
Borrowings	1,10,243	1,30,097	1,63,911	1,96,694	2,39,966
Trade Payables	2,017	2,590	3,037	3,796	4,745
Other liabilities & provisions	369	499	563	610	725
TOTAL LIABILITIES & EQUITY	1,50,592	1,73,947	2,18,581	2,63,447	3,22,237
USES OF FUNDS					
Cash and cash equivalent	24,844	17,614	14,364	14,508	14,653
Investments	5	5	4,545	4,591	4,637
Advances	1,17,205	1,47,653	1,90,433	2,36,599	2,95,748
Fixed & other assets	8,538	8,675	9,238	10,786	10,236
TOTAL ASSETS	1,50,592	1,73,948	2,18,581	2,66,484	3,25,274
GLP	1,35,870	1,66,010	2,10,310	2,62,888	3,28,609

Source: Company, KRChoksey Research

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Exhibit 3: Ratio Analysis

Key Ratio	FY 2021	FY 2022	FY 2023	FY 2024E	FY 2025E
Growth rates					
AUM (%)	5.6%	26.0%	26.7%	25.0%	25.0%
Borrowings (%)	14.8%	18.0%	26.0%	20.0%	22.0%
Total assets (%)	19.6%	15.5%	25.7%	21.9%	22.1%
NII (%)	29.2%	16.3%	35.1%	26.9%	25.2%
Pre-provisioning profit (%)	36.2%	13.2%	39.8%	26.5%	26.7%
PAT (%)	-60.8%	171.6%	133.9%	36.5%	28.2%
Balance sheet ratios					
Advances/Total assets (%)	78%	85%	87%	89%	91%
Leverage (x)	1.4x	1.3x	1.3x	1.4x	1.4x
Operating efficiency					
Cost/income (%)	38.1%	39.0%	35.6%	35.3%	34.1%
Opex/ average assets (%)	4.2%	4.2%	4.2%	4.3%	4.2%
Opex/GLP (%)	5.0%	4.7%	4.4%	4.4%	4.2%
Profitability					
NIM (%)	11.9%	12.0%	11.7%	12.0%	12.0%
ROAA (%)	1.0%	2.2%	4.2%	4.6%	4.9%
ROAE (%)	4.0%	9.1%	18.0%	19.9%	20.8%
Asset quality					
Gross NPA (%)	4.43%	3.61%	1.21%	1.17%	1.16%
Net NPA (%)	1.37%	0.94%	0.42%	0.40%	0.38%
Per share data / Valuation					
EPS (INR)	8.5	22.9	52.0	71.0	91.0
BV (INR)	244.0	261.5	321.4	392.3	483.3
ABV (INR)	233.1	254.1	320.1	385.0	478.7
P/E (x)	64.7x	37.1x	22.3x	16.3x	12.7x
P/BV (x)	2.2x	3.3x	3.5x	3.0x	2.4x
P/ABV (x)	2.3x	3.3x	3.6x	3.0x	2.4x

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CreditAccess Grameen Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
18-May-23	1,166	1,365	BUY	Buy	More than 15%
08-Feb-23	957	1,290	BUY	Accumulate	5% – 15%
02-Aug-22	1,039	1,211	BUY	Hold	0 – 5%
16-May-22	923	1,135	BUY	Reduce	-5% – 0
08-Feb-22	731	843	BUY	Sell	Less than – 5%

ANALYST CERTIFICATION:

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