AXIS SECURITIES

Result Update
24th July, 2023

CreditAccess Grameen Ltd.
BFSI – NBFC Microfinance

BUY
Target Price
1,600

Stellar Quarter; Strong Performance to Continue!

Est. Vs. Actual for Q1FY24: NII – BEAT; PPOP – BEAT; PAT – BEAT; NIMs – BEAT

Changes in Estimates post Q1FY24

FY24E/FY25E: NII: 5.9%/5.3%; **PPOP:** 8.6%/8.2%; **PAT:** 10.8%/10.1%

Recommendation Rationale

- **GLP growth to remain buoyant**: CAGrameen is eyeing GLP growth of 24%-25% in FY24, which it expects to be led by continuing strong momentum in customer addition and newer geographies contributing healthily to overall growth. CAGrameen will also look to gradually scale up its non-MFI (retail finance book). Currently, it is scaling up the individual unsecured book, 2-wheelers and LAP portfolio and will also continue its pilot on Gold Loans and Affordable housing during the year. In the near term, CAGrameen looks to achieve a milestone of clocking GLP of Rs 25,000 Cr and double its book over the next 4-5 years. ***We factor in GLP growth of ~24% CAGR over FY23-25E.***
- **Well-Poised to deliver RoA of ~5% over the medium term:** The management expects the company's CoF to inch up by 20-40bps in the coming quarters. That said, ~16% of the portfolio, which originated before Apr'22, is eligible to be re-priced. This will provide some cushion to margins. While the management has retained its margins guidance of 12%-12.2%, we expect the company's NIMs to improve meaningfully to ~12.5% in FY24 and remain largely stable in FY25E. Opex growth will be driven by branch expansion, investment in tech and fresh hiring. With asset quality headwinds now behind, credit costs are expected to remain steady. Thus, CAGrameen remains well positioned to deliver superior earnings growth of ~37% CAGR over FY24-25E and an RoA/RoE of 5-5.1%/21-22% over the same period.

Sector Outlook: Positive

Company Guidance: Despite strong performance across metrics in Q1FY24, CAGrameen has retained its earlier guidance of growing GLP in the range of 24%-25%. The company will look to maintain NIMs at 12%-12.2% in FY24. The company's Cost-Income ratio is expected to remain steady at ~34-35%. Moreover, backed by strong asset quality, its credit costs should range between 1.6%-1.8%, thereby collectively enabling the company to deliver a healthy RoA of 4.7%-4.9% and RoE of 20%-21% in FY24. However, the management will monitor the performance over the next couple of quarters before revising its guidance for FY24. Taking a cue from Q1FY24 performance, we expect some upwards revision in the management's guidance across most parameters.

Current Valuation: 3.2x FY25E BV Earlier Valuation: 3.0x Sep'24E BV

Current TP: Rs 1,600/share Earlier TP: Rs 1,315/share

Recommendation: We **maintain** our **BUY** recommendation on the stock.

Financial Performance:

- CAGrameen added ~3.3 Lc borrowers in Q1FY24, with ~47% coming from other than Top-3 states. Disbursements de-grew by ~33% QoQ owing to seasonality, while YoY growth was strong at 122%. GLP growth was in line with our expectations of 40%/4% YoY/QoQ.
- NII growth stood at 58%/16% YoY, driven by strong GLP growth and a sharp improvement in margins. Yields expanded by 230/100bps YoY/QoQ with the portfolio re-pricing, while CoF remained stable QoQ at 9.6% vs. 9.5% in Q4FY23. NIMs stood at 13% vs. 11.2%/12.2% (+180/80 bps YoY/QoQ). PPOP growth was robust at 88/8% YoY/QoQ. Provisions tapered by 24%/27% YoY/QoQ, aiding earnings growth of 153%/17% YoY/QoQ. RoA/RoE stood at 5.8%/26.4%.
- Collection Efficiency (CE), excl-arrears, stood at normalized levels of ~98.7%. Asset quality improved further with GNPA at 0.89% vs. 3.1/1.2% YoY/QoQ.

Outlook:

We prefer CAGrameen amongst the microfinanciers, despite its rich valuations. We believe the company remains well poised to deliver superior performance over the medium to long term, which will be supported by (a) Strong rural presence and focus, (b) Customer-centric approach, (c) Robust technology infrastructure, (d) Strong Risk Management Framework and (e) Adequate capitalization. We raise our NII and PAT estimates upwards by 5%-6% and 10%-11% over FY24/25E. We expect the company to deliver a robust NII/Earnings growth of 30/37% CAGR over FY23-25E.

Valuation & Recommendation

Despite the sharp run-up in the stock (+33% in the last 3 months), we believe current valuations of 2.7x FY25E BV reflect the strong performance delivery potential and thus justify premium valuations. We value CAGrameen at 3.2x FY25E BV to arrive at a revised target price of Rs 1,600/share, implying an upside of 22% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q1FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	720	+16.3	+57.8	670	+7.5
PPOP	544	+8.1	+87.7	446	+21.9
Net Profit	348	+17.5	+152.7	261	+33.6
NNPA (%)	0.3	-15 bps	-88 bps	0.4	-15 bps
RoA (%)	5.8	+30 bps	+270 bps	-	-

Source: Company, Axis Research

(CMP as of 21 July, 2023)

CMP (Rs)	1,312
Upside /Downside (%)	22%
High/Low (Rs)	1,398/834
Market cap (Cr)	20,862
Avg. daily vol. (6m) Shrs.	3,56,632
No. of shares (Cr)	15.9

Shareholding (%)

	Dec-22	Mar-23	Jun-23
Promoter	73.7	73.7	66.8
FIIs	9.6	9.7	9.6
MFs / UTI	10.2	10.2	10.3
Others	6.5	6.5	13.3

Financial & Valuations

Y/E Mar (Rs Cr)	FY23	FY24E	FY25E
NII	2,114	2,887	3,569
PPOP	1,506	2,072	2,550
Net Profit	826	1,272	1,561
EPS (Rs)	52.0	80.1	98.2
BV (Rs)	321.4	401.4	499.6
P/BV (x)	4.1	3.3	2.6
RoA (%)	4.2	5.2	5.1
NNPA (%)	0.4	0.4	0.4

Change in Estimates (%)

Y/E Mar	FY24E	FY25E
NII	5.9	5.3
PPOP	8.6	8.2
PAT	10.8	10.1

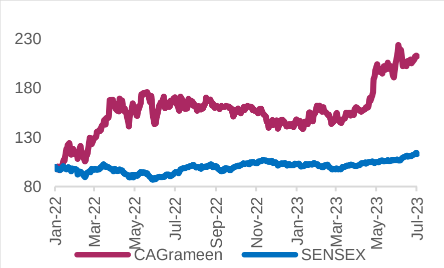
ESG disclosure Score**

Environmental Disclosure	N.A
Social Disclosure Score	N.A
Governance Disclosure Score	N.A
Total ESG Disclosure Score	**N.A**
Sector Average	**37.3**

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance



Source: AceEquity, Axis Securities

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Key Takeaways

- **Diversification efforts progressing well** – The company remains focused on diversifying its geographical footprint and will look to gain substantial market share in states other than the Top-3. It has identified the markets of Bihar, Rajasthan, Gujarat and Jharkhand. CAGrameen expects growth in the core states of Maharashtra, Karnataka, Tamil Nadu and Madhya Pradesh to remain in the high single-digit to low double-digit, while the new geographies are expected to remain buoyant on a smaller base. The company will remain watchful in terms of scaling up business in Andhra Pradesh and Telangana, wherein it will add a few branches before taking a cautious call of scaling the book.

- **Negligible Impact of Elections** – The management believes there is adequate customer awareness around election-related announcements of loan waivers. Hence, they expect the impact of elections to be minimal. The management believes that during the election months, growth could be marginally slower for 1-2 months, but they do not expect any major disruption.

Key Risks to our Estimates and TP

- The key risk to our estimates remains a slowdown in overall disbursement and AUM growth which could potentially derail our earnings estimates.

- Slowdown in growth momentum in newer geographies or inability to scale up business in new geographies

Change in Estimates

(Rs Cr)	Revised		Old		% Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
NII	2,887	3,569	2,726	3,390	5.9	5.3
PBP	2,072	2,550	1,909	2,356	8.6	8.2
Provisions	370	461	374	460	-1.2	0.3
PAT	1,272	1,561	1,147	1,418	10.8	10.1

Source: Axis Securities

AXIS SECURITIES

Results Review (Consolidated)

(Rs Cr)	Q1FY24	Q1FY23	% YoY	Q4FY23	% QoQ
Net Interest Income	720	456	57.8	619	16.3
Non-Interest Income	66	24	169.9	101	-35.4
Operating expenses	242	191	26.7	218	11.2
-- Staff Cost	*156*	*124*	*26.2*	*135*	*16.2*
Pre provision profits	544	290	87.7	503	8.1
Provisions and contingencies	76	101	-24.3	105	-27.5
PBT	467	189	147.5	398	17.6
Provision for Tax	119	49	141.4	101	17.8
PAT	348	138	152.7	297	17.5
Business Update					
Disbursements	4,771	2,146	122.3	7,171	-33.5
AUM	**21,814**	**15,615**	39.7	**21,032**	3.7
MFI	*21,603*	*15,470*	*39.6*	*20,864*	*3.5*
Retail Finance	*211*	*145*	*45.5*	*168*	*25.6*
Cost-Income ratio (%)	30.8	39.7	-893bps	30.2	59bps
Yields (%)	20.7	18.3	240bps	19.7	100bps
Cost of Funds (%)	9.6	9.0	60bps	9.5	10bps
NIMs (%)	13.0	11.2	180bps	12.2	80bps
Asset Quality					
Gross NPA (%)	0.9	3.1	-222bps	1.2	-32bps
Net NPA (%)	0.3	1.2	-88bps	0.4	-15bps
PCR (%)	69.7	63.0	664bps	65.3	437bps
Capital Adequacy					
CRAR	24.4	24.7	-30bps	23.6	80bps
Tier I	23.5	24.0	-50bps	22.7	80bps
Tier II	0.9	0.7	20bps	0.9	0bps

Source: Company, Axis Securities

Financials (Consolidated)

Profit & Loss **(Rs Cr)**

Y/E March	FY22	FY23	FY24E	FY25E
Net Interest Income	**1,583**	**2,114**	**2,887**	**3,569**
Non-Interest Income	183	224	244	270
Total Income	**1,766**	**2,338**	**3,131**	**3,838**
Operating Expenses	688	831	1,059	1,288
Pre-Provision Profits	**1,078**	**1,506**	**2,072**	**2,550**
Provisions	597	401	370	461
PBT	**481**	**1,105**	**1,702**	**2,089**
Tax	128	279	430	528
Profit After Tax	**353**	**826**	**1,272**	**1,561**

Source: Company, Axis Securities

Balance Sheet **(Rs Cr)**

Y/E March	FY22	FY23	FY24E	FY25E
Equity Share Capital	156	159	159	159
Reserves & Surplus	3,822	4,948	6,220	7,781
Net Worth	**3,978**	**5,107**	**6,379**	**7,940**
Borrowings	12,921	16,312	20,194	24,971
Other Liabilities	496	439	544	674
Total Liabilities	**17,395**	**21,858**	**27,117**	**33,585**
Cash & Bank balances	1,761	1,436	1,619	2,006
Investments	1	455	537	749
Goodwill	318	376	376	376
Loans	14,765	19,043	23,906	29,638
Fixed Assets & Others	550	548	680	818
Total Assets	**17,395**	**21,858**	**27,117**	**33,585**

Source: Company, Axis Securities

Ratio Analysis **(%)**

Y/E March	FY22	FY23	FY24E	FY25E
Asset Quality				
GNPA	560	237	307	395
NNPA	278	88	108	133
GNPA Ratio (%)	3.6	1.2	1.2	1.3
NNPA Ratio (%)	0.9	0.4	0.4	0.4
PCR (%)	50.3	62.7	64.7	66.2
Credit Costs (%)	4.5	2.4	1.7	1.7
Profitability & Efficiency Ratios				
Net Interest Margin (%) – (on. Avg on-book AUMs)	10.9	11.6	12.6	12.5
RoA	2.2	4.2	5.2	5.1
RoE	9.2	18.2	22.2	21.8
Cost to Assets	4.2	4.2	4.3	4.2
Cost to Income	39.0	35.6	33.8	33.6
CRAR (%)	26.5	23.6	21.8	20.7
Tier I (%)	25.9	22.7	20.9	19.9
Balance Sheet Structure Ratios (%)				
GLP Growth (%)	22.2	26.7	25.5	24.0
Borrowing Growth (%)	18.1	26.2	23.8	23.7
Equity/Assets (%)	22.9	23.4	23.5	23.6
Equity/Loans (%)	26.9	26.8	26.7	26.8
Valuation				
EPS (INR)	22.7	52.0	80.0	98.2
Change (%)	*162.9*	*129.5*	*54.0*	*22.7*
BV per share	255.2	321.4	401.4	499.6
Adj. BV per share	237.3	315.8	394.6	491.2
Price-Earnings (x)	57.9	25.2	16.4	13.4
Price-BV (x)	5.1	4.1	3.3	2.6
Price-ABV (x)	5.5	4.2	3.3	2.7
DuPont Analysis – RoE Tree (%)				
NII	9.8	10.8	11.8	11.8
Non-Interest Income	1.1	1.1	1.0	0.9
Opex	4.2	4.2	4.3	4.2
Provisions	3.7	2.0	1.5	1.5
Tax	0.8	1.4	1.8	1.7
RoA	2.2	4.2	5.2	5.1
Leverage	4.2	4.3	4.3	4.3
RoE	9.2	18.2	22.2	21.8

Source: Company, Axis Securities

CreditAccess Grameen Price Chart and Recommendation History

Date	Reco	TP	Research
04-Mar-21	BUY	865	Initiating Coverage
07-May-21	BUY	750	Result Update
11-Jun-21	BUY	810	Company Update
11-Aug-21	BUY	745	Result Update
06-Sep-21	BUY	745	Company Update
07-Oct-21	BUY	745	Company Update
11-Nov-21	BUY	755	Result Update
09-Dec-21	BUY	715	AAA
08-Feb-22	BUY	825	Result Update
16-May-22	BUY	1,080	Result Update
02-Aug-22	BUY	1,210	Result Update
25-Oct-22	BUY	1,200	Result Update
08-Feb-23	BUY	1,215	Result Update
17-May-23	BUY	1,315	Result Update
19-May-23	BUY	1,315	Result Update
01-Jun-23	BUY	1,400	Top Picks
01-Jul-23	BUY	1,400	Top Picks
24-Jul-23	BUY	1,600	Result Update

Source: Axis Securities

About the Analyst

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Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning valuation and recommendation
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

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