

**BUY** CreditAccess Grameen

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## Superlative performance in a seasonally weak Q1

BFSI - Banks ▶ Result Update ▶ July 23, 2023

TARGET PRICE (Rs) : 1,800

**CreditAccess Grameen (CREDAG) reported a strong beat on the PAT front by 27% at Rs3.5bn (est: Rs2.7bn) due to strong GLP growth (+40% YoY) in a typically lean quarter, sharp margin uptick to 13% (12.2% in 4Q) benefiting from asset repricing and contained opex/provisions. Going forward, management has guided for growth to remain healthy in FY24, given strong underlying customer growth and ticket size. That said, it expects growth to moderate and, thus, has guided for 24-25% CAGR over FY24-26E. Margins are expected to moderate as CoF catches up, while unusually low C/I ratio at 30-31% for the past 2 quarters is likely to inch up.**

**Given the strong beat in Q1, we have revised our earnings estimates by 22% for FY24E and by 9%/2% for FY25/26E, delivering 5.7-4.7%/24%-20% RoA/RoE over FY24-26E. Factoring in earnings upgrade, we have revised our TP to Rs1,800/share (3.5x June 25 ABV) vs. Rs1,650 earlier. Promoter's stake sale overhang is also largely over and, thus, the stock should now track its superior financial performance. CREDAG remains our preferred pick in the NBFC-MFI space, followed by Fusion.**

**CreditAccess Grameen: Financial Snapshot (Consolidated)**

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	3,531	8,262	13,957	15,535	17,541
AUM growth (%)	22.2	26.7	26.0	25.0	23.0
NII growth (%)	11.4	35.1	42.7	19.0	18.9
NIM (%)	10.9	12.0	13.5	12.8	12.4
PPOP growth (%)	13.2	39.8	46.8	15.9	17.4
Adj. EPS (Rs)	22.7	52.5	87.8	97.8	110.4
Adj. EPS growth (%)	158.5	131.5	67.3	11.3	12.9
Adj. BV (INR)	259.2	321.1	400.3	496.7	604.6
Adj. BVPS growth (%)	2.9	21.3	24.3	24.3	22.1
RoA (%)	2.2	4.2	5.7	5.1	4.7
RoE (%)	8.8	17.8	24.2	21.6	19.9
P/E (x)	57.9	25.0	15.0	13.4	11.9
P/ABV (x)	5.2	4.1	3.3	2.7	2.2

Source: Company, Emkay Research

**Robust GLP growth coupled with portfolio re-pricing led to sharp margin uptick**

CREDAG reported strong GLP growth at 40% YoY/3.7% QoQ in a typically lean quarter for the MFI sector on account of a strong pick-up in customer growth (+20% YoY) and moderate GLP attrition. This coupled with fresh disbursements at better yields (21.9%) and portfolio yield expanding to 20.7% (up 230bps yoy/100bps qoq), while borrowing cost being relatively moderate at 9.6%(50bps yoy/10bps qoq) led to sharp margin uptick at 13% (up 190bps yoy/80bps qoq). Going forward, management has guided to double the portfolio over the next 4-5 years with the share of non-MFI JLG loans increasing to nearly 15% of the portfolio, including gold loans, AFH, 2W, LAP and so on. Management believes current margins are unsustainable as cost catches up and should moderate, while entry into the new non-MFI segment could put some structural pressure on NIM in the long run.

**Headline NPAs continue to decline, leading to contained provisions**

CREDAG continues to witness steady improvement in its GNPA ratio (+60 DPD) to 0.9% (down 30bps QoQ), while NNPA fell by 15bps QoQ to 0.3%. CREDAG maintains 70% PCR on 90+ DPD portfolio, with 51% on Stage-2 portfolio. Overall collection efficiency remains healthy at 99%. PAR book trend shows improvement with PAR 0 DPD at 1.2% (vs. 1.5% in Q4), PAR 30 at 1% vs. 1.2%, PAR 60 at 0.8% vs. 1.1%, and PAR 90 at 0.7% vs. 1%. As per management, all states including Bihar, UP, Orissa, and Jharkhand in North and North East regions are showing healthy asset-quality trends as of now and, thus, do not pose any risk. That said, CREDAG plans to build a healthy contingent buffer and has guided for elevated provisions, taking the benefit of strong operational profitability.

**Retain BUY with a revised TP of Rs1,800**

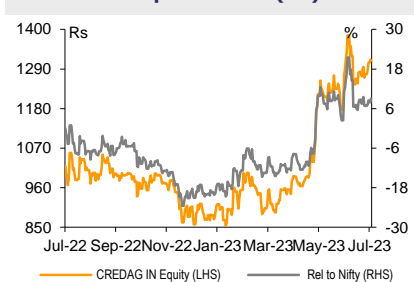
Given the strong beat in Q1, we have revised our earnings estimates by 22% for FY24E and 9%/2% for FY25/26E, delivering 5.7-4.7%/24%-20% RoA/RoE over FY24-26E. Factoring in earnings upgrade, we have revised our TP to Rs1,800/share (3.5x its June 25 ABV) vs. Rs1,650 earlier. Promoter stake sale overhang is largely over and, thus, the stock should now track superior financial performance. CREDAG remains our preferred pick in the NBFC-MFI space, followed by Fusion.

Target Price – 12M	Jun-24
<b>Change in TP (%)</b>	<b>9.1</b>
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	37.0
CMP (21-Jul-23) (Rs)	1,313.5

Stock Data	Ticker
52-week High (Rs)	1,398
52-week Low (Rs)	834
Shares outstanding (mn)	159.1
Market-cap (Rs bn)	209
Market-cap (USD mn)	2,549
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	646.2
ADTV-3M (USD mn)	7.9
Free float (%)	26.0
Nifty-50	19,745
INR/USD	82.0
<b>Shareholding, Jun-23</b>	
Promoters (%)	66.8
FPIs/MFs (%)	9.6/11.9

**Price Performance**

(%)	1M	3M	12M
Absolute	(0.1)	32.5	24.3
Rel. to Nifty	(4.6)	18.3	4.5

**1-Year share price trend (Rs)****Anand Dama**

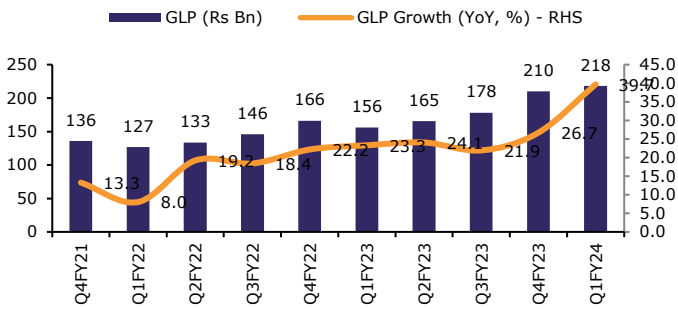
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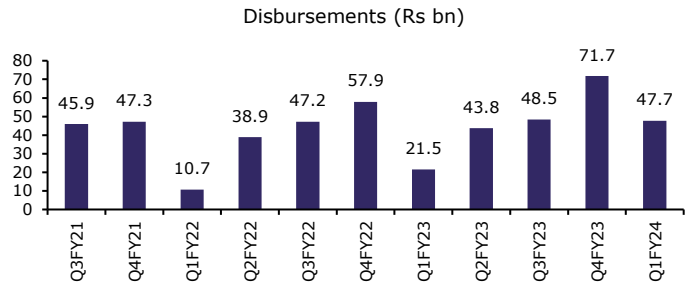
# Story in Charts

**Exhibit 1: GLP growth remained strong in a typically lean quarter**



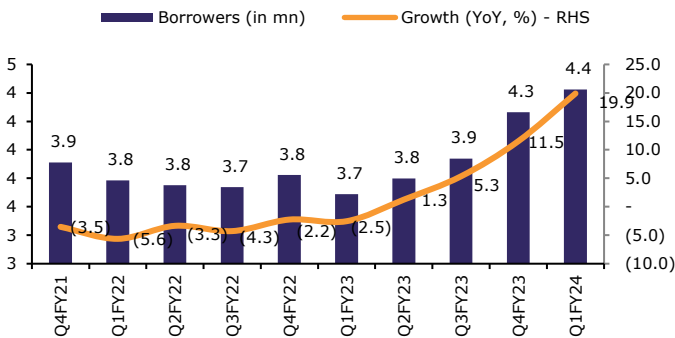
Source: Company, Emkay Research

**Exhibit 2: Disbursements stayed strong in a seasonally weak qtr**



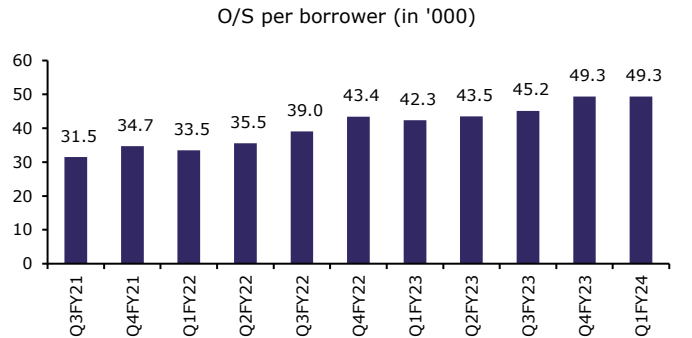
Source: Company, Emkay Research

**Exhibit 3: Borrower growth remained healthy at 20% YoY**



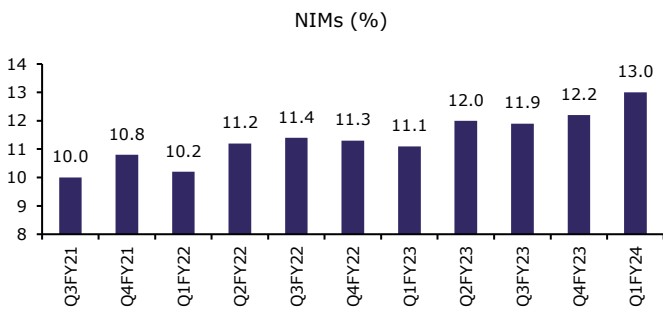
Source: Company, Emkay Research

**Exhibit 4: Resulting in healthy O/S per borrower**



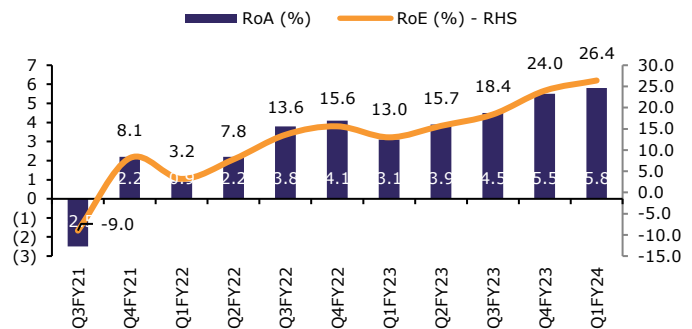
Source: Company, Emkay Research

**Exhibit 5: Higher portfolio yield and moderate cost of borrowing led to healthy margin uptick**



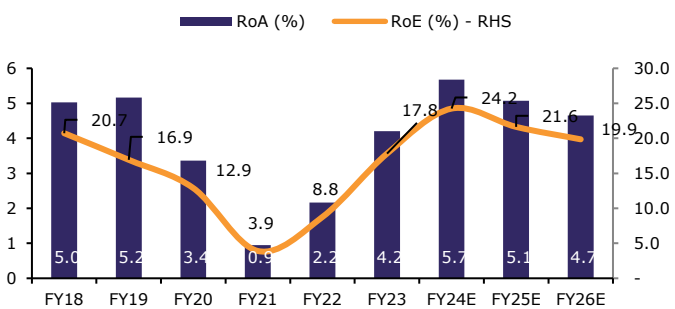
Source: Company, Emkay Research

**Exhibit 6: Resulting in healthy return ratios**



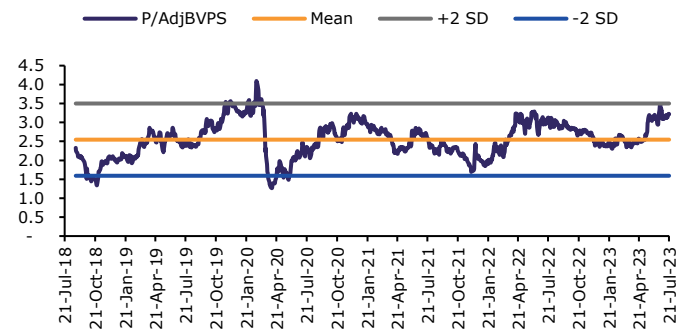
Source: Company, Emkay Research

**Exhibit 7: Return ratios to improve amid healthy growth/margins and lower LLP**



Source: Company, Emkay Research

**Exhibit 8: Stock is trading at 3.2x its one-year forward P/ABV**



Source: Bloomberg, Emkay Research

**Exhibit 9: Actual vs. Estimates (Q1FY24)**

(Rs mn)	Actuals	Estimates		Variation (%)		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	7,858	7,163	7,553	10%	4%	Higher margins led to a beat.
PPOP	5,416	4,746	4,956	14%	9%	Higher net income led to a beat.
PAT	3,463	2,721	2,930	27%	18%	Higher PPOP and lower LLP led to a beat.

Source: Bloomberg, Company, Emkay Research

**Exhibit 10: Quarterly Summary**

(Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY (%)	QoQ (%)	FY23A	FY24E	YoY (%)
Interest Earned	7,424	7,890	8,816	10,364	11,490	55	11	34,469	49,347	43
Interest Exp.	2,798	2,732	3,142	3,456	3,849	38	11	12,129	17,466	44
Net Interest Income	4,626	5,158	5,674	6,908	7,641	65	11	22,340	31,881	43
Global NIMs (reported)	11.10	12.00	11.90	12.20	13.00	190bps	80bps	12.02	13.53	152bps
Non-interest Income	182	253	281	298	218	20	-27	1,040	1,106	6
Operating Expenses	1,909	2,067	2,160	2,177	2,442	28	12	8,315	10,867	31
Pre Provisioning Profit	2,899	3,344	3,795	5,028	5,416	87	8	15,065	22,120	47
Provision & Contingencies	1,009	1,054	894	1,053	764	-24	-27	4,010	3,461	-14
PBT	1,889	2,290	2,900	3,975	4,652	146	17	11,056	18,659	69
Income Tax Expense (Gain)	493	529	743	1,010	1,189	141	18	2,794	4,702	68
Net Profit/(Loss)	1,397	1,761	2,158	2,965	3,463	148	17	8,262	13,957	69
Gross NPA (%)	3.11	2.17	1.71	1.21	0.89	-222bps	-32bps	1.23	0.89	-34bps
Net NPA (%)	1.15	0.77	0.59	0.42	0.27	-88bps	-15bps	0.42	0.27	-15bps
Net Advances (Rs bn)	141	152	164	190	198	40	4	190	240	26

Source: Company, Emkay Research

**Exhibit 11: Revision in Estimates**

Y/E March (Rs mn)	FY24E			FY25E			FY26E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net income	29,362	32,987	12.3%	36,091	39,155	8.5%	43,853	46,512	6.1%
PPOP	18,994	22,120	16.5%	23,775	25,634	7.8%	29,387	30,085	2.4%
PAT	11,454	13,957	21.9%	14,255	15,535	9.0%	17,138	17,541	2.4%
EPS (Rs)	72.1	87.8	21.9%	89.7	97.8	9.0%	107.8	110.4	2.4%
BV (Rs)	386.5	402.3	4.1%	476.2	500.0	5.0%	584.1	610.4	4.5%

Source: Emkay Research

**Exhibit 12: Key Assumptions**

	FY23A	FY24E	FY25E	FY26E
Loan Growth (%)	29.0	25.8	24.8	22.7
Borrowing Growth (%)	26.2	24.0	24.0	23.0
NIM (%)	12.0	13.5	12.8	12.4
GNPA (%)	1.2	0.9	1.1	1.4
Credit Cost (%)	2.3	1.6	1.8	2.0

Source: Emkay Research

## Exhibit 13: Key ratios and trends

	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Loans (Rs bn)	127	133	146	166	156	165	178	210	218
-growth (YoY )	17.8	30.7	29.6	22.2	23.3	24.1	21.9	26.7	39.7
-growth (QoQ )	-6.8	5.3	9.4	13.8	-5.9	5.9	7.5	18.2	3.7
<b>Loan composition (%)</b>									
- IGL	94.5	94.6	95.2	96.1	95.7	95.5	95.9	95.5	94.8
- Family Welfare	0.3	0.4	0.4	0.2	0.8	1.1	0.7	0.3	0.7
- Home Improvement	2.3	2.5	2.5	2.5	2.6	2.6	2.7	3.3	3.6
- Emergency	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0
- Retail Finance	2.9	2.5	1.8	1.2	0.9	0.7	0.6	0.8	1.0
<b>Asset Quality</b>									
GNPA (%)	7.6	7.7	6.0	3.6	3.1	2.2	1.7	1.2	0.9
NNPA (%)	3.2	3.3	2.6	1.3	1.2	0.8	0.6	0.4	0.3
PCR (%)	59.4	58.6	58.3	64.4	63.6	65.1	65.9	65.7	72.4
<b>ROE Decomposition %</b>									
NII	9.7	10.5	11.0	12.5	10.9	12.2	12.7	13.6	13.7
Other Income	0.4	0.6	1.0	0.9	0.4	0.6	0.6	0.6	0.4
Treasury	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Opex	4.2	4.9	4.7	4.5	4.5	4.9	4.8	4.3	4.4
PPOP	6.0	6.2	7.3	8.9	6.8	7.9	8.5	9.9	9.7
Provsioning Cost	5.2	4.0	3.1	3.6	2.4	2.5	2.0	2.1	1.4
PBT	0.8	2.2	4.1	5.2	4.5	5.4	6.5	7.8	8.3
Tax	0.2	0.5	1.0	1.4	1.2	1.3	1.7	2.0	2.1
ROA	0.6	1.7	3.1	3.8	3.3	4.2	4.8	5.9	6.2
Leverage (x)	3.8	3.6	3.8	4.1	4.0	3.7	3.8	4.0	4.1
ROE	2.1	6.2	11.7	15.6	13.2	15.7	18.3	23.2	25.4

Source: Company, Emkay Research

## CreditAccess Grameen: Consolidated Financials and Valuations

Profit and Loss					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	26,373	34,469	49,347	60,260	71,155
Interest Expense	9,841	12,129	17,466	22,334	26,059
<b>Net interest income</b>	<b>16,532</b>	<b>22,340</b>	<b>31,881</b>	<b>37,926</b>	<b>45,096</b>
NII growth (%)	11.4	35.1	42.7	19.0	18.9
Other income	1,128	1,040	1,106	1,228	1,415
<b>Total Income</b>	<b>17,659</b>	<b>23,380</b>	<b>32,987</b>	<b>39,155</b>	<b>46,512</b>
Operating expenses	6,885	8,315	10,867	13,521	16,427
<b>PPOP</b>	<b>10,775</b>	<b>15,065</b>	<b>22,120</b>	<b>25,634</b>	<b>30,085</b>
PPOP growth (%)	13.2	39.8	46.8	15.9	17.4
<b>Core PPOP</b>	<b>10,775</b>	<b>15,065</b>	<b>22,120</b>	<b>25,634</b>	<b>30,085</b>
Provisions & contingencies	5,967	4,010	3,461	4,866	6,634
<b>PBT</b>	<b>4,808</b>	<b>11,056</b>	<b>18,659</b>	<b>20,768</b>	<b>23,451</b>
Extraordinary items	0	0	0	0	0
Tax expense	1,277	2,794	4,702	5,234	5,910
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>3,531</b>	<b>8,262</b>	<b>13,957</b>	<b>15,535</b>	<b>17,541</b>
PAT growth (%)	168.7	134.0	68.9	11.3	12.9
<b>Adjusted PAT</b>	<b>3,531</b>	<b>8,262</b>	<b>13,957</b>	<b>15,535</b>	<b>17,541</b>
<b>Diluted EPS (Rs)</b>	<b>23.2</b>	<b>52.3</b>	<b>71.8</b>	<b>89.4</b>	<b>107.4</b>
Diluted EPS growth (%)	160.9	125.2	37.3	24.5	20.2
<b>DPS (Rs)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Dividend payout (%)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Effective tax rate (%)	26.6	25.3	25.2	25.2	25.2
Net interest margins (%)	10.9	12.0	13.5	12.8	12.4
Cost-income ratio (%)	39.0	35.6	32.9	34.5	35.3
Shares outstanding (mn)	167.6	170.6	170.6	170.6	170.6

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Asset quality</b>					
Gross NPLs	5,586.5	2,355.5	2,150.5	3,296.0	5,242.4
Net NPLs	1,973.5	799.5	645.2	988.8	1,572.7
GNPA ratio (%)	3.7	1.2	0.9	1.1	1.4
NNPA ratio (%)	1.3	0.4	0.3	0.3	0.4
Provision coverage (%)	64.7	66.1	70.0	70.0	70.0
Gross slippages	6,955.0	3,620.0	4,099.4	5,727.1	7,785.9
Gross slippage ratio (%)	4.6	1.9	1.7	1.9	2.1
LLP ratio (%)	4.4	2.3	1.6	1.8	2.0
NNPA to net worth (%)	4.7	1.6	1.0	1.2	1.6
<b>Capital adequacy</b>					
Total CAR (%)	22.8	23.6	24.2	23.8	23.2
Tier-1 (%)	21.8	22.7	23.4	23.2	22.7
Tier-2 (%)	1.0	0.9	0.8	0.6	0.5
RWA-to-Total Assets (%)	82.0	82.0	84.0	88.0	92.0
<b>Miscellaneous</b>					
Total income growth (%)	11.5	29.1	42.1	21.9	18.0
Opex growth (%)	17.6	20.8	30.7	24.4	21.5
Core PPOP growth (%)	13.2	39.8	46.8	15.9	17.4
PPOP margin (%)	6.6	7.7	9.0	8.4	8.0
PAT/PPOP (%)	32.8	54.8	63.1	60.6	58.3
LLP-to-Core PPOP (%)	55.4	26.6	15.6	19.0	22.0
Yield on advances (%)	19.4	19.5	21.7	21.2	20.3
Cost of borrowings (%)	8.2	8.3	9.6	9.9	9.3

Source: Company, Emkay Research

Balance Sheet					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	1,676	1,706	1,706	1,706	1,706
Reserves & surplus	39,993	49,363	62,337	77,871	95,413
<b>Net worth</b>	<b>41,669</b>	<b>51,070</b>	<b>64,043</b>	<b>79,577</b>	<b>97,119</b>
Deposits	0	0	0	0	0
Borrowings	129,207	163,122	202,201	250,649	308,216
<b>Interest-bearing liab.</b>	<b>129,207</b>	<b>163,122</b>	<b>202,201</b>	<b>250,649</b>	<b>308,216</b>
<b>Other liabilities &amp; prov.</b>	<b>3,944</b>	<b>4,389</b>	<b>6,792</b>	<b>8,842</b>	<b>9,710</b>
<b>Total liabilities &amp; equity</b>	<b>174,820</b>	<b>218,582</b>	<b>273,036</b>	<b>339,069</b>	<b>415,045</b>
Net advances	147,653	190,434	239,636	299,120	367,085
Investments	5	4,545	5,453	5,726	6,012
Cash, other balances	17,614	14,364	18,198	23,812	30,822
<b>Interest earning assets</b>	<b>165,273</b>	<b>209,344</b>	<b>263,287</b>	<b>328,657</b>	<b>403,918</b>
Fixed assets	6,320	6,030	6,138	6,441	6,758
Other assets	3,227	3,208	3,610	3,971	4,368
<b>Total assets</b>	<b>174,820</b>	<b>218,582</b>	<b>273,036</b>	<b>339,069</b>	<b>415,045</b>
BVPS (Rs)	267.6	324.5	403.0	500.8	611.2
Adj. BVPS (INR)	259.2	321.1	400.3	496.7	604.6
Gross Loan Portfolio (Rs mn)	165,990	210,310	264,991	331,238	407,423
Loan to borrowings (%)	114.3	116.7	118.5	119.3	119.1
Cash + Invt as a % of GLP	10.6	9.0	8.9	8.9	9.0
Cost of borrowings (%)	8.2	8.3	9.6	9.9	9.3
Loans-to-Assets (%)	84.5	87.1	87.8	88.2	88.4
AUM growth (%)	22.2	26.7	26.0	25.0	23.0
Borrowings growth (%)	18.1	26.2	24.0	24.0	23.0
Book value growth (%)	3.0	21.3	24.2	24.3	22.0

Source: Company, Emkay Research

Valuations and Key Ratios					
Y/E March	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	57.9	25.0	15.0	13.4	11.9
P/B (x)	5.1	4.1	3.3	2.6	2.2
P/ABV (x)	5.2	4.1	3.3	2.7	2.2
P/PPOP (x)	20.4	14.8	10.1	8.7	7.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
<b>DuPont-RoE split (%)</b>					
NII/avg assets	10.1	11.4	13.0	12.4	12.0
Other income	0.7	0.5	0.4	0.4	0.4
Fee income	0.2	0.2	0.2	0.2	0.2
Opex	4.2	4.2	4.4	4.4	4.4
<b>PPOP</b>	<b>6.6</b>	<b>7.7</b>	<b>9.0</b>	<b>8.4</b>	<b>8.0</b>
Core PPOP	6.6	7.7	9.0	8.4	8.0
Provisions	3.7	2.0	1.4	1.6	1.8
Tax expense	0.8	1.4	1.9	1.7	1.6
<b>RoA (%)</b>	<b>2.2</b>	<b>4.2</b>	<b>5.7</b>	<b>5.1</b>	<b>4.7</b>
Leverage ratio (x)	4.1	4.2	4.3	4.3	4.3
<b>RoE (%)</b>	<b>8.8</b>	<b>17.8</b>	<b>24.2</b>	<b>21.6</b>	<b>19.9</b>
<b>Quarterly data</b>					
Rs mn, Y/E March	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
NII	4,626	5,158	5,674	6,908	7,641
NIM (%)	11.1	12.0	11.9	12.2	13.0
PPOP	2,899	3,344	3,795	5,028	5,416
PAT	1,397	1,761	2,158	2,965	3,463
EPS (Rs)	8.96	11.30	13.84	19.02	22.22

Source: Company, Emkay Research

**RECOMMENDATION HISTORY - DETAILS**

Date	CMP (INR)	TP (INR)	Rating	Analyst
01-Jul-23	1,248	1,650	Buy	Anand Dama

Source: Company, Emkay Research

**RECOMMENDATION HISTORY - TREND**



Source: Bloomberg, Company, Emkay Research

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