

CreditAccess Grameen | BUY

Cranking up profitability

CREDAG reported a strong quarter with expansion in profitability (RoA at 5.8%, +30bps QoQ) which led to PAT of INR 3.5bn (148% YoY, +16.8% QoQ; +3.2% vs JMFe) driven by a) strong NII growth (+58% YoY, +16.3% QoQ; +7.1% vs JMFe) with 80bps QoQ expansion in NIMs to 13%, and b) lower credit costs (1.63% vs 2.24% QoQ). Strong disbursements growth (+122% YoY) coupled with customer additions (0.33mn net customer additions) resulted in continued AUM momentum (+40% YoY, +3.7% QoQ) even during a seasonally weak quarter. Management highlighted that they expect the growth momentum to trend stronger going ahead; they also expect the non MFI retail to pick up pace and expect its share to inch up to ~5-7% of AUM in medium term. Management guided for RoA of 4.7-4.9% in FY24E aided by steady NIMs (12-12.2% levels), controlled opex (cost to income of 35%) and lower credit costs (1.6-1.8%). CREDAG has always traded at premium valuations due to its superior cross-cycle return metrics and best-in-class asset quality among MFI players. We expect valuations to be guided by a) strong cyclical tailwinds in the sector, b) steady growth momentum c) healthy asset quality and d) strong return metrics. Given the strong NIMs performance and low credit costs, we raise our FY24E/FY25E earnings by 14-16%. We expect CREDAG to deliver RoA/RoE of 5.5%/23.8% in FY25E. Maintain BUY with a revised TP of INR 1,550 (3.0x FY25E BVPS).

- **Growth momentum continues; expect 27% CAGR over FY23-25:** AUM growth was healthy at (+40% YoY, +3.7% QoQ) despite seasonally weaker quarter. Disbursements growth remained strong at (+122% YoY) and customer additions (0.33mn net customer additions). Management highlighted that they expect the growth momentum to sustain going ahead and expect CREDAG to grow by 24-25% (14-15% driven by customer additions) in FY24E. Further, non-MFI products are also expected to gain traction going ahead and expect its share to inch up to ~5-7% of AUM in medium term. We revised our AUM growth estimate to 27% from previous 25% given its continued outperformance and strong execution quarter after quarter.
- **NIMs improve as asset yield increases even as costs largely stable:** Reported NIMs improved to 13% (+80bps QoQ) as yields moved up +100bps QoQ at 20.7% and cost of funds remained largely stable (+10bps QoQ) at 9.6%. Management expects NIMs to slightly decline on account of ~20-40bps expected rise in CoFs which should come in from draw-down of INR 100mn public NCD to take place within next two quarters. Operating profit stood at INR 5.4bn (+87% YoY, +7.7% QoQ) driven by strong NII growth of (+58% YoY, +16.3% QoQ) and lower credit costs (1.63% vs 2.24% QoQ).
- **Pristine asset quality:** GNPA/NNPA improved to 0.9%/0.3% (-57bps QoQ/-17bps QoQ) against which ECL provisions stood at 1.6%. Total write-offs for the quarter stood at INR 1.0bn (46bps of AUM vs 122bps YoY). Total Par0+ declined to 1.2% (-30bps QoQ) and collection efficiency (ex- arrears) also remained healthy at 98.7%. Legacy book of Mudra now stands at INR 720mn which accounts for 0.3% of AUM. We expect growth to be driven in a risk calibrated manner and build in credit costs of 160-170bps for FY24E/25E.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,550
Upside/(Downside)	18.0%
Previous Price Target	1,420
Change	9.2%

Key Data – CREDAG IN

Current Market Price	INR1,314
Market cap (bn)	INR208.9/US\$2.5
Free Float	32%
Shares in issue (mn)	155.6
Diluted share (mn)	
3-mon avg daily val (mn)	INR653.8/US\$8.0
52-week range	1,398/834
Sensex/Nifty	66,684/19,745
INR/US\$	82.0

Price Performance

%	1M	6M	12M
Absolute	-1.6	43.6	28.7
Relative*	-7.1	31.3	8.2

* To the BSE Sensex

Financial Summary

	(INR mn)				
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Net Profit	1,314	3,571	8,260	13,741	17,500
Net Profit (YoY) (%)	-60.8%	171.8%	131.3%	66.3%	27.4%
Assets (YoY) (%)	19.6%	16.1%	25.0%	27.7%	27.8%
ROA (%)	1.0%	2.2%	4.2%	5.5%	5.5%
ROE (%)	4.1%	9.1%	17.8%	23.7%	23.8%
EPS	8.4	22.9	52.0	86.5	110.1
EPS (YoY) (%)	-63.8%	171.3%	126.9%	66.3%	27.4%
P/E (x)	155.6	57.4	25.3	15.2	11.9
BV	237	267	321	408	518
BV (YoY) (%)	25.0%	12.7%	20.2%	26.9%	27.0%
P/BV (x)	5.54	4.92	4.09	3.22	2.54

Source: Company data, JM Financial. Note: Valuations as of 21Jul/2023

JM Financial Institutional Securities Limited

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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

- **Valuation and view:** CREDAG has always traded at premium valuations due to its superior return profile and best-in-class asset quality among MFI players. We expect valuations to be guided by a) strong cyclical tailwinds in the sector, b) steady growth momentum c) healthy asset quality and d) strong return metrics. Given the strong NIMs performance, healthy reduction in stress pool and thus lower credit costs, we raise our FY24E/FY25E earnings by 14-16% and expect RoA/RoE of 5.5%/23.8% in FY25E. Maintain BUY with a revised TP of INR 1,550 valuing it at 3.0x FY25E BVPS.

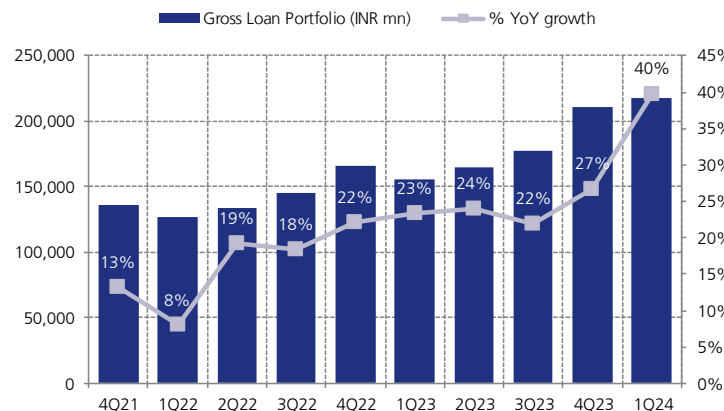
CREDAG – 1Q24 Performance Highlights

Exhibit 1. CREDAG 1Q24 : Results summary

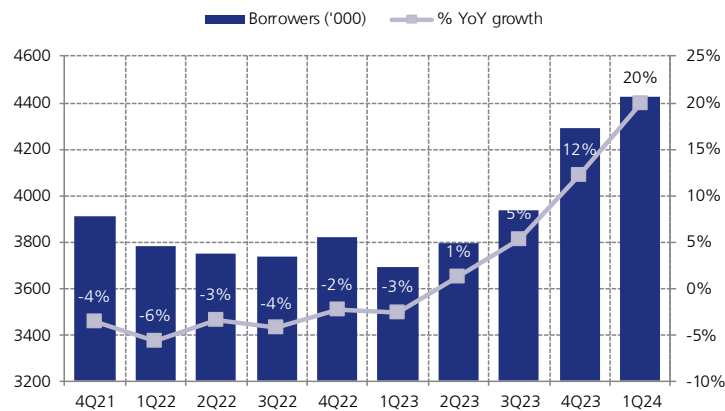
Earnings Table (INR mn)	1Q'23	4Q'23	1Q'24	YoY (%)	QoQ (%)
Interest Income	7,362	9,648	11,052	50.1%	14.6%
Interest Expenses	2,798	3,456	3,849	37.6%	11.4%
Net interest income	4,564	6,192	7,203	57.8%	16.3%
Non-Interest Income	243	1,015	656	169.9%	-35.4%
Total Income	4,807	7,206	7,858	63.5%	9.0%
Employees Cost	1,239	1,345	1,563	26.2%	16.2%
Other Expenditure	671	832	879	31.0%	5.6%
Total Operating Expenses	1,910	2,177	2,442	27.9%	12.2%
Operating Profit (PPP)	2,897	5,029	5,416	86.9%	7.7%
Provisions & Write Offs	1,009	1,053	764	-24.3%	-27.5%
PBT	1,888	3,976	4,652	146.4%	17.0%
Tax	493	1,010	1,189	141.4%	17.8%
Reported Profit	1,396	2,966	3,463	148.1%	16.8%
Balance Sheet Data (INR bn)					
Assets Under Management	156.2	210.3	218.1	39.7%	3.7%
Disbursements	21.5	71.7	47.7	122.3%	-33.5%
Ratios Analysis (%)					
Cost to Income (%)	39.7%	34.5%	31.1%	-8.66%	-3.41%
Effective Tax Rate (%)	26%	25%	26%	-1%	0%
Asset Quality					
Gross NPA (%)	3.11%	1.21%	0.89%	-2.22%	-0.32%
Net NPA (%)	1.15%	0.42%	0.27%	-0.88%	-0.15%
PCR (%)	63.02%	65.29%	69.66%	6.64%	4.37%
Capital Adequacy (%)					
Tier 1 (%)	24.00%	22.70%	23.50%	-0.50%	0.80%
CAR (%)	24.70%	23.60%	24.40%	-0.30%	0.80%
Du-pont Analysis (%)					
NII / Assets (%)	10.74%	12.19%	12.91%	2.17%	0.7%
Non-Interest Inc. / Assets (%)	0.57%	2.00%	1.17%	0.60%	-0.82%
Operating Cost / Assets (%)	4.50%	4.29%	4.38%	-0.12%	0.09%
Operating Profits / Assets (%)	6.82%	9.90%	9.71%	2.89%	-0.20%
Provisions / Assets (%)	2.38%	2.07%	1.37%	-1.01%	-0.70%
PBT / Assets (%)	4.44%	7.83%	8.34%	3.89%	0.51%
ROA (%)	3.29%	5.84%	6.21%	2.92%	0.37%
Du-pont Analysis (%) - AUM					
NII / AUM (%)	11.33%	12.57%	13.45%	2.11%	0.88%
Other income / AUM (%)	0.58%	1.67%	1.21%	0.63%	-0.46%
Cost to AUM (%)	4.74%	4.70%	4.56%	-0.18%	-0.14%
PPP / AUM (%)	7.19%	9.56%	10.11%	2.92%	0.55%
Provisions / AUM (%)	2.51%	2.11%	1.43%	-1.08%	-0.68%
PBT / AUM (%)	4.69%	7.45%	8.69%	4.00%	1.23%
ROAUM (%)	3.47%	5.55%	6.47%	3.00%	0.91%

Source: Company, JM Financial

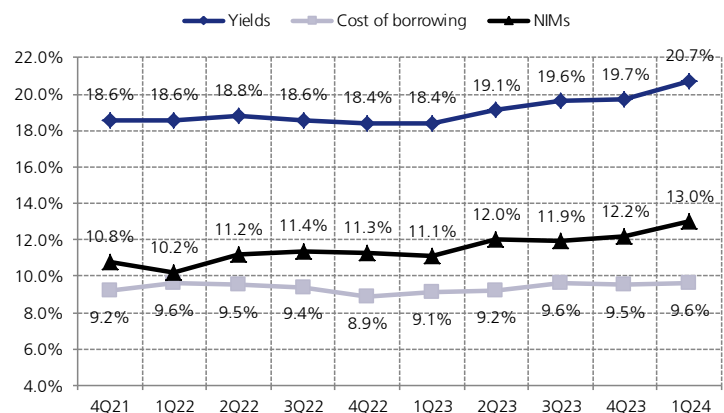
Quarterly Trends

Exhibit 2. CREDAG: Trends in Gross Loan Portfolio


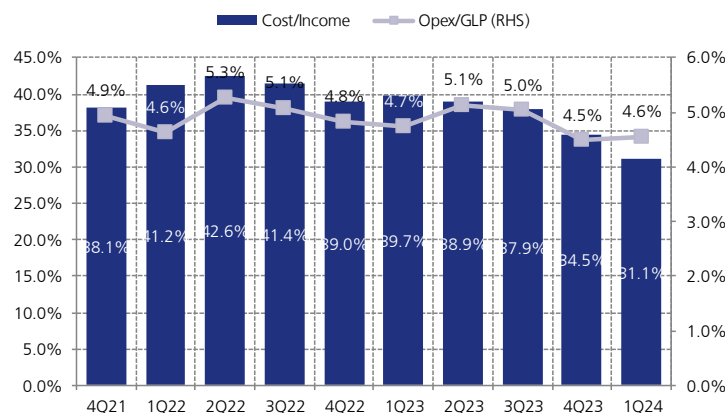
Source: Company, JM Financial

Exhibit 3. CREDAG: Trends in borrower base


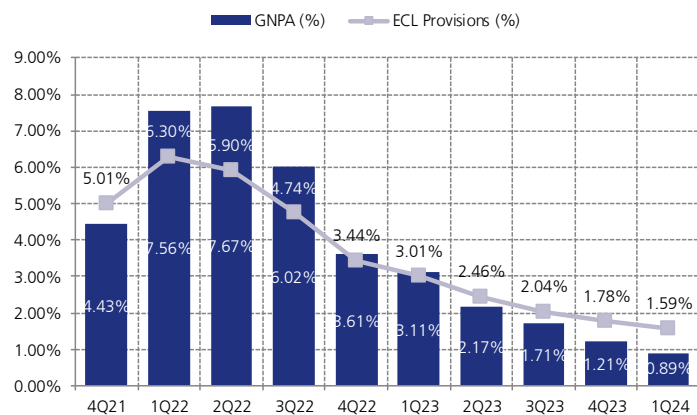
Source: Company, JM Financial

Exhibit 4. CREDAG: Trends in yields, CoFs and NIMs


Source: Company, JM Financial

Exhibit 5. CREDAG: Trends in Cost/Income and Opex/GLP


Source: Company, JM Financial

Exhibit 6. CREDAG: Trends in GNPA and ECL Provisions


Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement (INR mn)					
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Net Interest Income (NII)	13,613	15,832	21,143	29,103	36,743
Non Interest Income	1,760	1,828	2,237	2,747	3,317
Total Income	15,374	17,660	23,379	31,850	40,059
Operating Expenses	5,856	6,885	8,315	9,958	11,921
Pre-provisioning Profits	9,518	10,775	15,064	21,892	28,138
Loan-Loss Provisions	7,714	5,967	4,010	3,504	4,720
Others Provisions	0	0	0	0	0
Total Provisions	7,714	5,967	4,010	3,504	4,720
PBT	1,804	4,808	11,054	18,388	23,419
Tax	490	1,237	2,794	4,647	5,918
PAT (Pre-Extra ordinaries)	1,314	3,571	8,260	13,741	17,500
Extra ordinaries (Net of Tax)	0	0	0	0	0
Reported Profits	1,314	3,571	8,260	13,741	17,500
Dividend	0	0	0	0	0
Retained Profits	1,314	3,571	8,260	13,741	17,500

Source: Company, JM Financial

Balance Sheet (INR mn)					
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Equity Capital	1,556	1,559	1,589	1,589	1,589
Reserves & Surplus	35,360	40,110	49,481	63,221	80,721
Stock option outstanding	0	0	0	0	0
Borrowed Funds	1,09,413	1,29,207	1,63,122	2,08,796	2,67,259
Deferred tax liabilities	0	0	0	0	0
Preference Shares	1,048	0	0	0	0
Current Liabilities & Provisions	3,225	3,943	4,389	5,584	7,134
Total Liabilities	1,50,602	1,74,819	2,18,581	2,79,190	3,56,704
Net Advances	1,17,205	1,47,653	1,90,434	2,43,499	3,10,760
Investments	5	5	4,545	4,870	6,215
Cash & Bank Balances	24,844	17,614	14,364	14,610	18,646
Loans and Advances	0	0	0	0	0
Other Current Assets	1,774	1,673	2,399	7,233	10,655
Fixed Assets	2,558	2,563	2,273	4,188	5,351
Miscellaneous Expenditure	3,176	3,757	3,757	3,757	3,757
Deferred Tax Assets	1,041	1,554	809	1,034	1,321
Total Assets	1,50,602	1,74,819	2,18,581	2,79,190	3,56,704

Source: Company, JM Financial

Key Ratios					
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Growth (YoY) (%)					
Borrowed funds	14.7%	18.1%	26.2%	28.0%	28.0%
Advances	5.6%	26.0%	29.0%	27.9%	27.6%
Total Assets	19.6%	16.1%	25.0%	27.7%	27.8%
NII	29.0%	16.3%	33.5%	37.6%	26.3%
Non-interest Income	144.2%	3.8%	22.4%	22.8%	20.7%
Operating Expenses	36.7%	17.6%	20.8%	19.8%	19.7%
Operating Profits	36.2%	13.2%	39.8%	45.3%	28.5%
Core Operating profit	27.4%	20.9%	50.4%	45.8%	28.7%
Provisions	225.1%	-22.6%	-32.8%	-12.6%	34.7%
Reported PAT	-60.8%	171.8%	131.3%	66.3%	27.4%
Yields / Margins (%)					
Interest Spread	8.30%	8.24%	9.33%	10.43%	10.47%
NIM	10.44%	10.30%	11.29%	12.32%	12.28%
Profitability (%)					
ROA	0.95%	2.19%	4.20%	5.52%	5.50%
ROE	4.1%	9.1%	17.8%	23.7%	23.8%
Cost to Income	38.1%	39.0%	35.6%	31.3%	29.8%
Asset quality (%)					
Gross NPA	4.53%	3.25%	1.12%	0.83%	1.29%
LLP	2.23%	0.07%	2.14%	1.62%	1.70%
Capital Adequacy (%)					
Tier I	25.50%	21.80%	22.70%	23.92%	24.86%
CAR	26.80%	22.80%	23.60%	24.66%	25.47%

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
NII / Assets	9.85%	9.73%	10.75%	11.69%	11.56%
Other Income / Assets	1.27%	1.12%	1.14%	1.10%	1.04%
Total Income / Assets	11.12%	10.85%	11.89%	12.80%	12.60%
Cost / Assets	4.24%	4.23%	4.23%	4.00%	3.75%
PPP / Assets	6.88%	6.62%	7.66%	8.80%	8.85%
Provisions / Assets	5.58%	3.67%	2.04%	1.41%	1.48%
PBT / Assets	1.30%	2.95%	5.62%	7.39%	7.37%
Tax rate	27.2%	25.7%	25.3%	25.3%	25.3%
ROA	0.95%	2.19%	4.20%	5.52%	5.50%
Leverage	4.1	4.2	4.3	4.3	4.3
ROE	4.1%	9.1%	17.8%	23.7%	23.8%

Source: Company, JM Financial

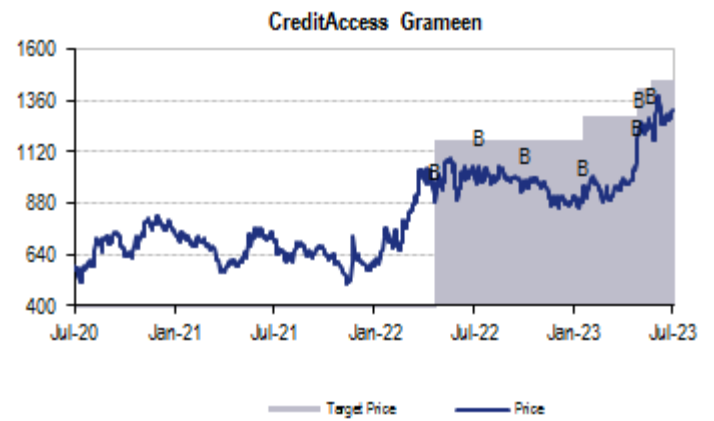
Valuations					
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Shares in Issue	155.6	155.9	158.9	158.9	158.9
EPS (INR)	8.4	22.9	52.0	86.5	110.1
EPS (YoY) (%)	-63.8%	171.3%	126.9%	66.3%	27.4%
P/E (x)	155.6	57.4	25.3	15.2	11.9
BV (INR)	237	267	321	408	518
BV (YoY) (%)	25.0%	12.7%	20.2%	26.9%	27.0%
P/BV (x)	5.54	4.92	4.09	3.22	2.54
DPS (INR)	0.0	0.0	0.0	0.0	0.0
Div. yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
12-May-22	Buy	1,175	
1-Aug-22	Buy	1,175	0.0
23-Oct-22	Buy	1,175	0.0
7-Feb-23	Buy	1,290	9.8
16-May-23	Buy	1,420	10.1
19-May-23	Buy	1,420	0.0
13-Jun-23	Buy	1,450	2.1

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Rating	Meaning
Buy	Total expected returns of more than 10% stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REIT refers to Real Estate Investment Trusts.

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