

21 October 2023

India | Equity Research | Q1FY24 results review

## CreditAccess Gramin

Financial Services

### Strong operating performance in H1FY24 leads to upward revision in FY24 guidance

CA Grameen continued to deliver strong operating performance in Q2FY24 as reflected in RoA sustaining at >5% and RoE at 25% for three consecutive quarters. Profitability was largely driven by steady AUM growth, efficient liability management (CoF increased by only 30bps since Sep'21) and controlled asset quality. Notably, its strong operating efficiency reflects in one of the lowest cost-AUM ratio at 4.7% as on Sep'23 - ~88% customer retention ratio enables minimal cost of incremental disbursement. Better-than-expected H1FY24 financial performance led to management revising FY24 guidance upwards - a) RoE: to 24-25% from 20-21% earlier, b) RoA: to 5.4-5.6% from 4.7-4.9% earlier and c) NIM: to 12.7-12.8% from 12-12.2% earlier, while it maintained AUM growth target at 24-25%. Maintain **BUY** with a revised target price of INR 1,600 (earlier: INR 1,550), valuing the stock at 3.7x Sep'24E BVPS.

### 1<sup>st</sup> MFI company to set RoE expectation at 24-25%

Profitability in MFI segment has always been better than most retail asset products like 2W, HL, vehicles etc. owing to high yields and resilient customer behaviour. Adoption of risk-based pricing (resulted in better yields) and tight credit norms (ticket size cap at 50% of FOIR at HH level income instead at borrower level) would further support the MFI entities to protect profitability especially during adverse credit cycle. CA Grameen's H1FY24 financial performance reinforces our view that earnings trajectory for MFI companies looks promising. Further, its RoE revision for the full year FY24 to 24-25% from 20-21% earlier also reflects its strong sector outlook and resilient business model.

### Q2FY24 financial performance

CA Grameen continued to generate industry-leading RoA/RoE at 5.6%/25.0% in Q2FY24 driven by strong operating performance as reflected in robust revenue growth of 5% QoQ and contained credit cost at 1.7% (within guidance range). Asset quality, too, continued to improve with GNPL / NNPL falling to 0.8% / 0.2% during Q2FY24 vs 0.9% / 0.2% in Q1FY24, respectively.

The company reported 3% QoQ AUM growth, thereby, taking 7% FY24 YTD growth. It sounded confident about delivering 24-25% growth in FY24. Notably, the entire incremental growth was likely driven by new customer acquisitions as outstanding per borrower fell 2% QoQ.

### Financial summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Interest Income (NII)	15,494	21,143	28,567	35,892
PAT (INR mn)	3,531	8,261	13,301	16,762
EPS (Rs)	22.7	52.5	83.7	105.5
% Chg YoY	158.4	131.4	59.5	26.0
P/E (x)	61.3	26.5	16.6	13.2
P/BV (x)	5.4	4.3	3.4	2.7
Gross Stage - 3 (%)	3.6	1.2	2.0	1.9
RoAA (%)	2.2	4.2	5.3	5.4
RoAE (%)	9.2	18.2	23.0	23.0

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#### Market Data

Market Cap (INR)	221bn
Market Cap (USD)	2,661mn
Bloomberg Code	CREDAG IN
Reuters Code	CRDE BO
52-week Range (INR)	1,502 /834
Free Float (%)	33.0
ADTV-3M (mn) (USD)	5.0

Price Performance (%)	3m	6m	12m
Absolute	5.6	40.0	42.9
Relative to Sensex	8.5	29.3	31.0

ESG Disclosure	2021	2022	Change
ESG score	-	-	-
Environment	-	-	-
Social	-	-	-
Governance	-	-	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

#### Previous Reports

24-07-2023: [Q1FY24 results review](#)

22-05-2023: [Company update](#)

### Valuation

The company currently trades at 2.7x FY25E BVPS, commanding a sector-leading premium. We believe the stock would continue to trade at a premium valuation going ahead given its time-tested business performance across cycles to ensure >20% RoE in FY24E/FY25E. Given its strong performance in H1FY24, it raised its RoE expectation to 24-25% from 20-21% earlier. Consequently, we increase our target price to INR 1,600 vs INR 1,550 earlier.

### Management confident of maintaining strong growth momentum of >20% -- largely driven by high customer acquisitions and expansion in new geographies

Customer additions of 1.5mn in the last 12 months and 0.33mn in Q2FY24 supported AUM growth of 36% YoY and 3% QoQ to INR 224.8bn. The growth was also driven by steady expansion in newer geographies with 40% of overall customer additions coming from outside the top-3 states in the last 12 months. Management plans to further deepen its presence outside top-3 states (Karnataka, Maharashtra and Tamil Nadu) and expects to grow its overall AUM at 24-25% in FY24. AUM growth in H1 stood at 7%, implying 17% growth in H2FY24E.

### Asset repricing to offset the likely increase in the cost of borrowings; spreads may expand further

While disbursement yield remained flat sequentially at 22%, the same is still higher than portfolio yield at 21% and the same may result in further expansion in asset yield going forward. However, the yield benefit may take some time to kick-in due to ~30% of loans having a tenure of 3 years. Lower marginal cost of borrowing at 9.6% vs 9.8% weighted CoB might lead to a decline in CoF going forward. Better disbursement yield coupled with efficient liability management would ensure NIM to remain at current level of 13% vs management guidance of 12.7-12.8%.

### Stressed pool continues to trend downwards, in line with management guidance

Collection efficiency (excl. arrears) remained robust at 98.7% in Q2FY24 (98.7%/98.2%/98% in Q2FY24/Q1FY23/Q4FY23). This led to GNPA (60+ dpd for group loans and 90+ dpd for retail finance) improving to 0.77% vs 0.89% in Jun'23 as compared to 1.21%/1.71%/2.17%/3.11% and NNPA dropping to 0.24% vs 0.27% in Jun'23 vs 0.42%/0.59%/0.77%/1.15% in Mar'23/Dec'22/Sep'22/Jun'22, respectively. Consequently, ECL provisions dropped to 1.60% in Q2FY24 from 1.59% in Q1FY24 vs 1.78% in Q4FY23 with credit costs moderating to 0.4% (non-annualised) in Q2FY24, which remained in line with the management guidance.

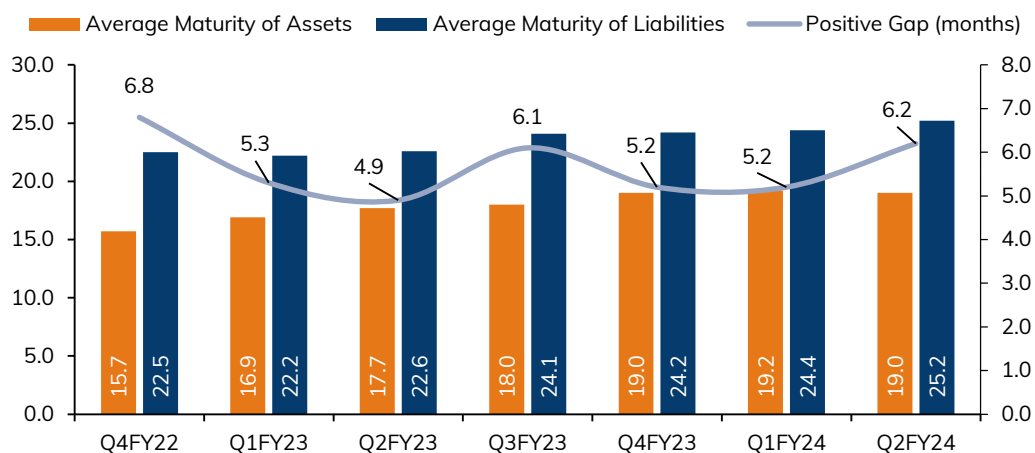
### Key risks

Higher than anticipated credit cost, and AUM growth deceleration.

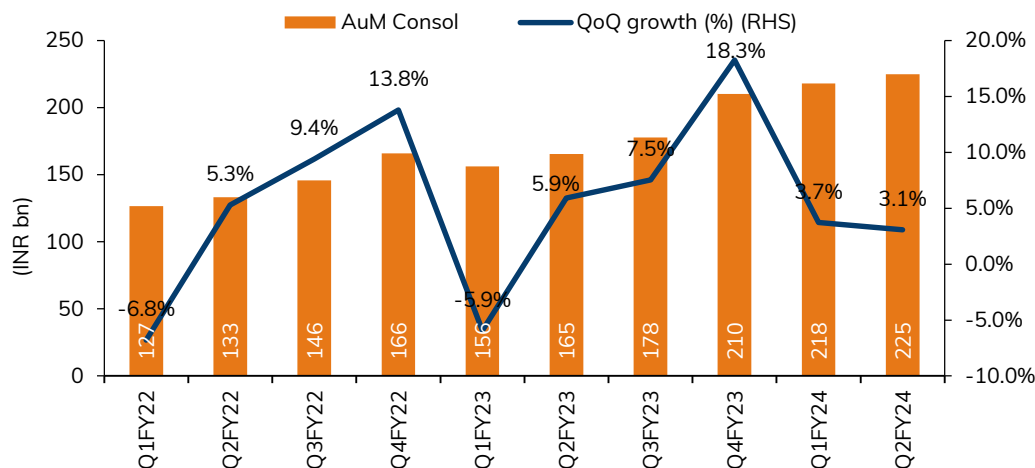
**Exhibit 1: Q2FY24 result review**

(INR mn)	FY22	FY23	% YoY (Consol)	Q2FY24	Q2FY23	% YoY (Consol)	Q1FY24	% QoQ
<b>Profit and loss (INR mn)</b>								
Interest income	26,418	33,271	26%	12,469	8,122	54%	11,700	7%
Interest expenses	9,841	12,129	23%	4,239	2,732	55%	3,849	10%
<b>Net interest income</b>	<b>16,576</b>	<b>21,143</b>	<b>28%</b>	<b>8,231</b>	<b>5,390</b>	<b>53%</b>	<b>7,851</b>	<b>5%</b>
Non-interest income	1,084	2,237	106%	7	9	-30%	7	-6%
<b>Total net income</b>	<b>17,660</b>	<b>23,379</b>	<b>32%</b>	<b>8,237</b>	<b>5,399</b>	<b>53%</b>	<b>7,858</b>	<b>5%</b>
Employee expense	4,377	5,152	18%	1,618	1,297	25%	1,563	3%
Other operating expenses	2,508	3,162	26%	993	770	29%	879	13%
<b>Total operating expenses</b>	<b>6,885</b>	<b>8,315</b>	<b>21%</b>	<b>2,611</b>	<b>2,067</b>	<b>26%</b>	<b>2,442</b>	<b>7%</b>
<b>Pre provisioning profits</b>	<b>10,775</b>	<b>15,064</b>	<b>40%</b>	<b>5,626</b>	<b>3,332</b>	<b>69%</b>	<b>5,416</b>	<b>4%</b>
Provisions & Write offs	5,967	4,010	-33%	959	1,054	-9%	764	25%
<b>Profit/Loss before Tax</b>	<b>4,808</b>	<b>11,054</b>	<b>130%</b>	<b>4,668</b>	<b>2,279</b>	<b>105%</b>	<b>4,652</b>	<b>0%</b>
Tax Expense	1,277	2,794	119%	1,197	529	127%	1,189	1%
<b>Profit/Loss after Tax</b>	<b>3,531</b>	<b>8,261</b>	<b>134%</b>	<b>3,470</b>	<b>1,750</b>	<b>98%</b>	<b>3,463</b>	<b>0%</b>
<b>Other key parameters (INR mn)</b>								
Disbursements for the period	1,52,490	1,85,110	21%	49,660	43,750	14%	47,710	4%
Gross loan portfolio O/S	1,65,990	2,10,320	27%	2,24,880	1,65,390	36%	2,18,140	3%
Borrowings	1,30,081	1,63,314	26%	1,76,686	1,23,082	44%	1,67,363	6%
Cash & Other liquid balances	15,806	14,364	-9%	14,083	7,579	86%	13,033	8%
<b>Key metrics</b>								
Active borrowers ('000)	3,820	4,264	12%	4,603	3,798	21%	4,424	4%
Average ticket size (INR)	42,940	48,931	14%	48,097	43,239	11%	48,831	-2%
Branches (nos)	1,635	1,786	9%	1,877	1,684	11%	1,826	3%
Stage 3 %	3.61%	1.21%	-240 bps	0.8%	2.2%	-140 bps	0.9%	-12 bps
NNPA %		0.42%		0.2%	0.8%		0.3%	-6 bps
<b>ROA tree (reported) - on AUM</b>								
Portfolio Yield	16.28%	16.95%	67 bps	21.10%	19.10%	200 bps	20.70%	40 bps
Finance Cost	8.19%	8.27%	7 bps	9.80%	9.20%	60 bps	9.60%	20 bps
<b>NII</b>	<b>10.84%</b>	<b>11.88%</b>	<b>104 bps</b>	<b>13.10%</b>	<b>12.00%</b>	<b>110 bps</b>	<b>13.00%</b>	<b>10 bps</b>
Operating Cost	4.24%	4.24%	-1 bps	4.70%	5.10%	-40 bps	4.50%	20 bps
Impairment on Financial Instruments	3.95%	2.13%	-183 bps	1.73%	2.62%	-90 bps	1.43%	30 bps
<b>RoA</b>	<b>2.18%</b>	<b>4.21%</b>	<b>203 bps</b>	<b>5.60%</b>	<b>4.00%</b>	<b>160 bps</b>	<b>5.80%</b>	<b>-20 bps</b>

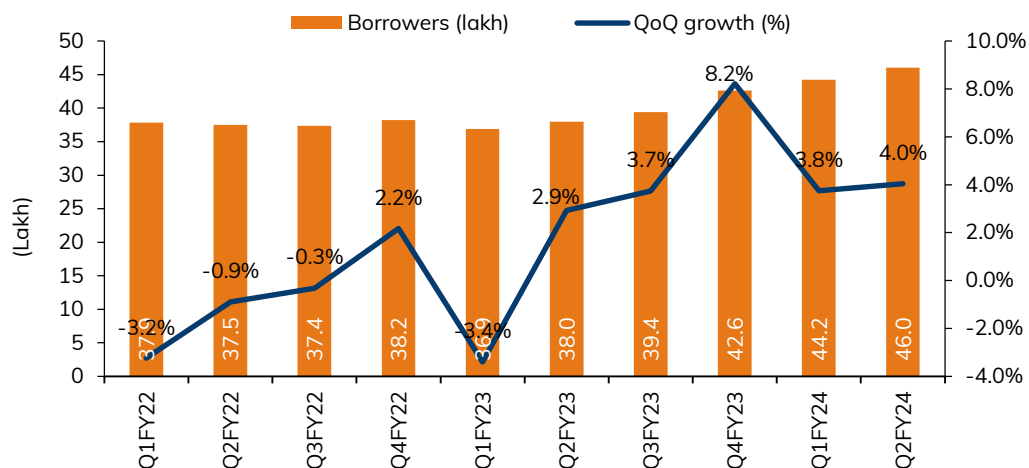
Source: Company data, I-Sec research

**Exhibit 2: Positive ALM mismatch to ensure better liquidity management**

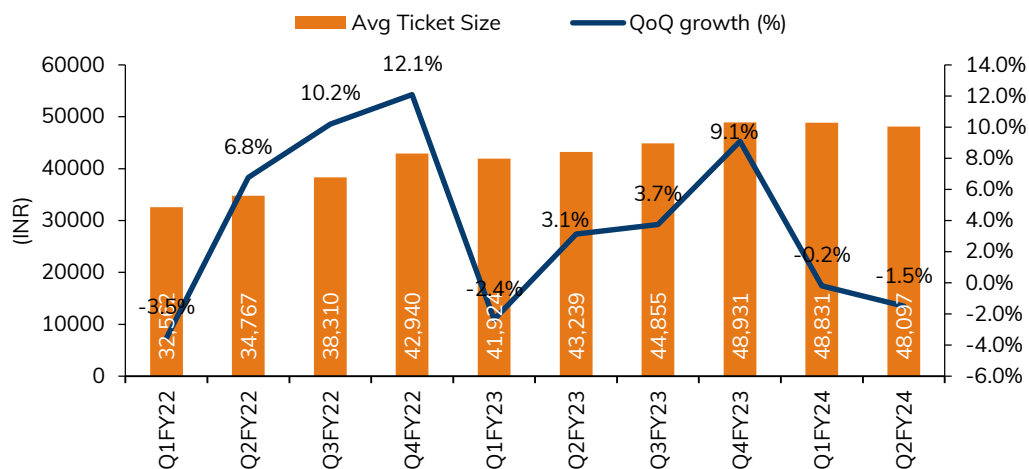
Source: Company data, I-Sec research

**Exhibit 3: AUM grew 3% QoQ driven by 4% QoQ growth in disbursements**

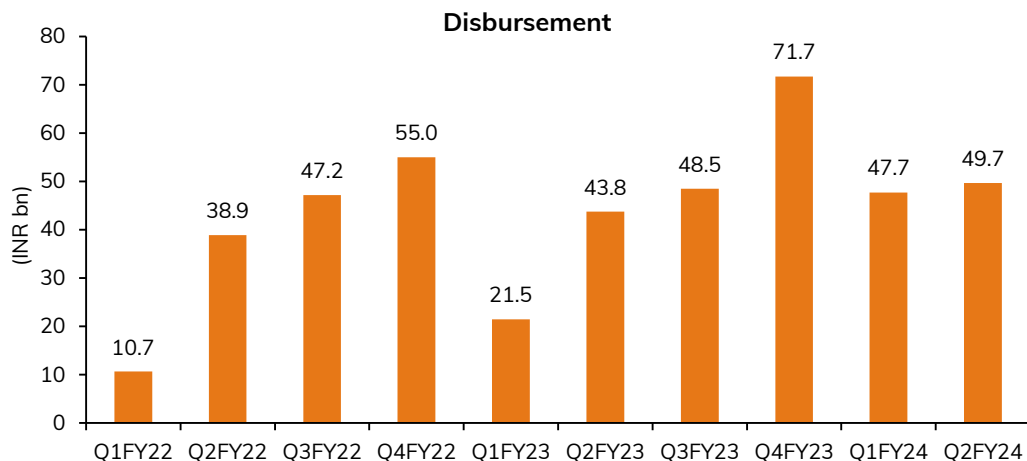
Source: Company data, I-Sec research

**Exhibit 4: Net customer base grew 4% QoQ**

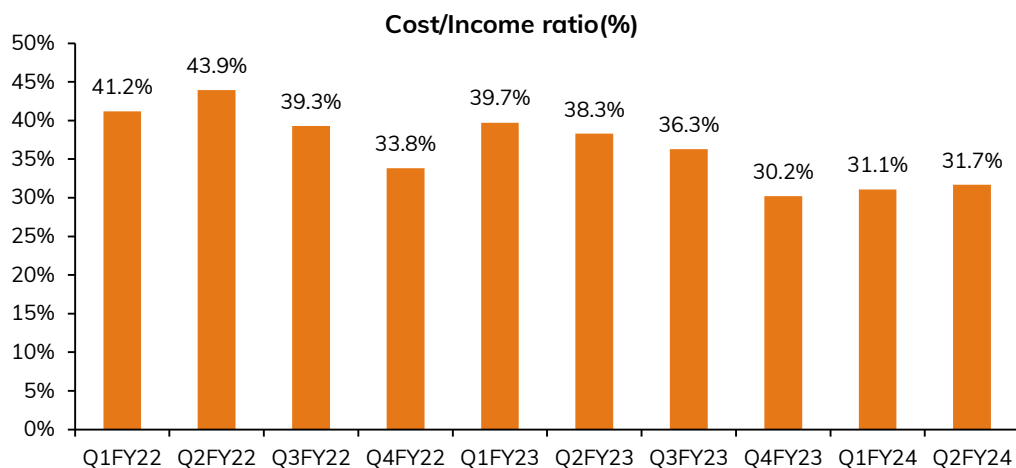
Source: Company data, I-Sec research

**Exhibit 5: Average ticket-size fell sequentially**

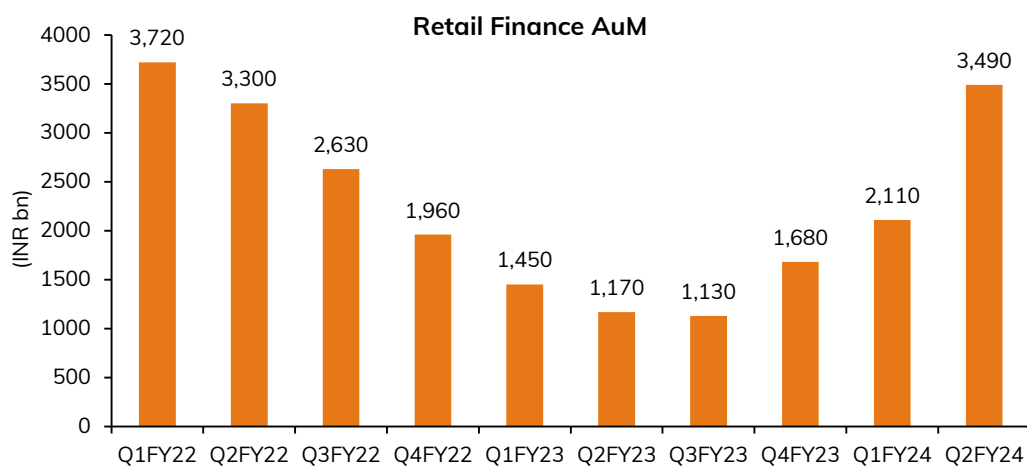
Source: Company data, I-Sec research

**Exhibit 6: Disbursements grew 4% QoQ**

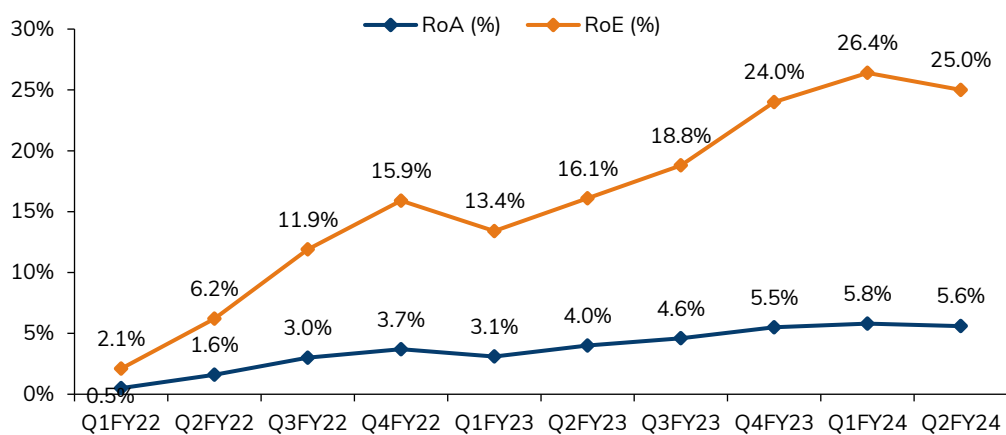
Source: Company data, I-Sec research

**Exhibit 7: Cost/income ratio increased marginally to 32%**

Source: Company data, I-Sec research

**Exhibit 8: Retail finance book grew 65% QoQ on a low base (now >1% of consolidated AUM)**

Source: Company data, I-Sec research

**Exhibit 9: Return ratios remained industry leading**

Source: Company data, I-Sec research

**Exhibit 10: Shareholding pattern**

%	Mar'23	Jun'23	Sep'23
Promoters	73.7	66.8	66.7
Institutional investors	22.0	21.5	27.2
MFs and others	10.2	10.3	13.6
Insurance	2.0	1.5	2.1
FII's	9.8	9.7	11.5
Others	6.3	11.7	6.1

Source: Bloomberg, I-Sec research

**Exhibit 11: Price chart**

Source: Bloomberg, I-Sec research

## Financial Summary

### Exhibit 12: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Interest Income	25,335	33,271	44,906	55,944
Interest Expenses	(9,841)	(12,129)	(16,339)	(20,052)
Net Interest Income (NII)	15,494	21,143	28,567	35,892
<b>Other Income</b>	<b>2,166</b>	<b>2,237</b>	<b>3,483</b>	<b>4,307</b>
Total Income (net of interest expenses)	17,660	23,379	32,049	40,200
<b>Employee benefit expenses</b>	<b>(4,377)</b>	<b>(5,152)</b>	<b>(6,118)</b>	<b>(7,627)</b>
Depreciation and amortization	(502)	(516)	(647)	(806)
Other operating expenses	(2,006)	(2,646)	(3,554)	(4,440)
Total Operating Expense	(6,885)	(8,315)	(10,320)	(12,873)
Pre Provisioning Profits (PPoP)	10,775	15,064	21,729	27,326
<b>Provisions and write offs</b>	<b>(5,967)</b>	<b>(4,010)</b>	<b>(3,954)</b>	<b>(4,926)</b>
<b>Profit before tax (PBT)</b>	<b>4,808</b>	<b>11,054</b>	<b>17,775</b>	<b>22,400</b>
Total tax expenses	(1,277)	(2,794)	(4,474)	(5,638)
<b>Profit after tax (PAT)</b>	<b>3,531</b>	<b>8,261</b>	<b>13,301</b>	<b>16,762</b>

Source Company data, I-Sec research

### Exhibit 13: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Share capital	1,559	1,589	1,589	1,589
Reserves & surplus	38,218	49,481	62,782	79,544
<b>Shareholders' funds</b>	<b>39,777</b>	<b>51,070</b>	<b>64,371</b>	<b>81,133</b>
Borrowings	1,30,081	1,63,314	1,99,775	2,45,824
Provisions & Other Liabilities	4,090	4,198	15,530	17,934
Total Liabilities and Stakeholder's Equity	1,73,948	2,18,581	2,79,676	3,44,891
Cash and balance with RBI	15,806	14,364	25,171	29,316
<b>Fixed assets</b>	<b>318</b>	<b>321</b>	<b>337</b>	<b>354</b>
Loans	1,47,653	1,90,433	2,37,240	2,95,563
Deferred tax assets (net)	1,325	1,325	1,398	1,724
<b>Other Assets</b>	<b>8,846</b>	<b>12,138</b>	<b>15,530</b>	<b>17,934</b>
Total Assets	1,73,948	2,18,581	2,79,676	3,44,891

Source Company data, I-Sec research

**Exhibit 14: Key ratios**

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>AUM and Disbursements (Rs mn)</b>				
AUM	1,65,990	2,10,320	2,63,600	3,28,403
On-book Loans	1,47,653	1,90,433	2,37,240	2,95,563
Off-book Loans	18,337	19,887	26,360	32,840
Disbursements	1,52,490	1,85,110	2,55,817	3,11,303
Repayments	1,22,360	1,39,120	1,99,795	2,42,961
Growth (%):				
<b>Total AUM (%)</b>	<b>22.2</b>	<b>26.7</b>	<b>25.3</b>	<b>24.6</b>
Disbursements (%)	39.6	21.4	38.2	21.7
Repayments (%)	31.1	13.7	43.6	21.6
Loan book (on balance sheet) (%)	26.0	29.0	24.6	24.6
Total Assets (%)	15.5	25.7	28.0	23.3
Net Interest Income (NII) (%)	16.0	36.5	35.1	25.6
Non-interest income (%)	7.4	3.3	55.7	23.7
Total Income (net of interest expenses) (%)	14.9	32.4	37.1	25.4
Operating Expenses (%)	17.6	20.8	24.1	24.7
Employee Cost (%)	15.2	17.7	18.7	24.7
Non-Employee Cost (%)	26.6	31.9	34.3	24.9
Pre provisioning operating profits (PPoP) (%)	13.2	39.8	44.2	25.8
Provisions (%)	(22.6)	(32.8)	(1.4)	24.6
PBT (%)	166.5	129.9	60.8	26.0
PAT (%)	168.7	134.0	61.0	26.0
EPS (%)	158.4	131.4	59.5	26.0
<b>Yields, interest costs and spreads (%)</b>				
NIM on loan assets (%)	10.5	11.1	12.0	12.1
<b>NIM on IEA (%)</b>	<b>9.0</b>	<b>10.4</b>	<b>11.1</b>	<b>11.1</b>
NIM on AUM (%)	10.3	11.2	12.1	12.1
Yield on loan assets (%)	17.2	17.5	18.9	18.9
Yield on IEA (%)	14.8	16.4	17.5	17.3
Yield on AUM (%)	16.8	17.7	19.0	18.9
Cost of borrowings (%)	8.2	8.3	9.0	9.0
Interest Spreads (%)	10.9	11.4	12.0	12.0
<b>Operating efficiencies</b>				
Non interest income as % of total income	56.3	59.5	59.0	59.6
<b>Cost to income ratio</b>	<b>25.0</b>	<b>23.4</b>	<b>21.3</b>	<b>21.4</b>
Op.costs/avg assets (%)	4.2	4.2	4.1	4.1
Op.costs/avg AUM (%)	4.6	4.4	4.4	4.3
No of employees (estimate) (mn)	15,642	16,759	19,423	21,581
No of branches (x)	1,635	1,786	2,111	2,346
Salaries as % of non-interest costs (%)	63.6	62.0	59.3	59.2
NII /employee (Rs mn)	1.0	1.3	1.5	1.7
AUM/employee(Rs mn)	10.6	12.5	13.6	15.2
AUM/ branch (Rs mn)	101.5	117.8	124.9	140.0
<b>Capital Structure</b>				
Average gearing ratio (x)	3.3	3.2	3.1	3.0
<b>Leverage (x)</b>	<b>4.4</b>	<b>4.3</b>	<b>4.3</b>	<b>4.3</b>
CAR (%)	24.6	23.7	24.8	25.1
Tier 1 CAR (%)	24.6	23.7	24.8	25.1
RWA (estimate) - Rs mn	1,53,559	1,98,051	2,46,729	3,07,386
RWA as a % of loan assets	104.0	104.0	104.0	104.0

Source Company data, I-Sec research

	FY22A	FY23A	FY24E	FY25E
<b>Asset quality and provisioning</b>				
GNPA (%)	3.6	1.2	2.0	1.9
NNPA (%)	0.4	0.4	0.3	0.3
GNPA (Rs mn)	3,933	4,796	4,673	5,627
NNPA (Rs mn)	1,149	1,665	701	844
Coverage ratio (%)	88.9	65.3	85.0	85.0
Credit Costs as a % of avg AUM (bps)	395	213	167	166
Credit Costs as a % of avg on book loans (bps)	451	237	185	185
<b>Return ratios</b>				
RoAA (%)	2.2	4.2	5.3	5.4
RoAE (%)	9.2	18.2	23.0	23.0
ROAAUM (%)	2.3	4.4	5.6	5.7
<b>Valuation Ratios</b>				
<b>No of shares</b>	<b>156</b>	<b>159</b>	<b>159</b>	<b>159</b>
No of shares (fully diluted)	156	159	159	159
ESOP Outstanding	-	-	-	-
EPS (Rs)	22.7	52.5	83.7	105.5
EPS fully diluted (Rs)	22.7	52.0	83.7	105.5
Price to Earnings (x)	61.3	26.5	16.6	13.2
Price to Earnings (fully diluted) (x)	61.4	26.7	16.6	13.2
Book Value (fully diluted)	255	321	405	511
Adjusted book value	250	314	402	507
Price to Book	5.4	4.3	3.4	2.7
Price to Adjusted Book	5.6	4.4	3.5	2.7

Source Company data, I-Sec research

**Exhibit 15: Key metrics**

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>DuPont Analysis</b>				
Average Assets (Rs mn)	1,62,270	1,96,264	2,49,129	3,12,284
Average Loans (Rs mn)	1,32,429	1,69,043	2,13,837	2,66,402
Average Equity (Rs mn)	38,346	45,423	57,720	72,752
Interest earned (%)	15.6	17.0	18.0	17.9
Interest expended (%)	6.1	6.2	6.6	6.4
Gross Interest Spread (%)	9.5	10.8	11.5	11.5
<b>Credit cost (%)</b>	<b>3.7</b>	<b>2.0</b>	<b>1.6</b>	<b>1.6</b>
Net Interest Spread (%)	5.9	8.7	9.9	9.9
<b>Operating cost (%)</b>	<b>4.2</b>	<b>4.2</b>	<b>4.1</b>	<b>4.1</b>
Lending spread (%)	1.6	4.5	5.7	5.8
<b>Non interest income (%)</b>	<b>1.3</b>	<b>1.1</b>	<b>1.4</b>	<b>1.4</b>
Operating Spread (%)	3.0	5.6	7.1	7.2
<b>Tax rate (%)</b>	<b>26.6</b>	<b>25.3</b>	<b>25.2</b>	<b>25.2</b>
ROAA (%)	2.2	4.2	5.3	5.4
<b>Effective leverage (AA/ AE)</b>	<b>4.2</b>	<b>4.3</b>	<b>4.3</b>	<b>4.3</b>
RoAE (%)	9.2	18.2	23.0	23.0

Source Company data, I-Sec research



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