

CreditAccess Grameen

BSE SENSEX 72,996 S&P CNX 22,124

CMP: INR1,423 TP: INR1760 (+24%) Buy



Bloomberg	CREDAG IN
Equity Shares (m)	159
M.Cap.(INRb)/(USDb)	226.7 / 2.7
52-Week Range (INR)	1796 / 876
1,6,12 Rel. Per (%)	-4/-5/28
12M Avg Val (INR M)	512
Free float (%)	33.3

Financials & Valuations (INR b)

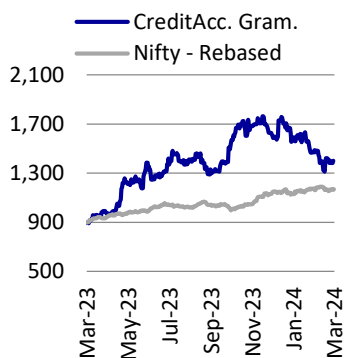
Y/E March	FY24E	FY25E	FY26E
NII	31.4	38.4	46.1
Total Income	34.1	41.3	49.3
PPoP	23.9	28.7	34.2
PAT	14.4	17.4	20.6
EPS (INR)	91	110	129
EPS Gr. (%)	75	21	18
BV (INR)	412	522	652
Ratios (%)			
NIM	14.5	14.1	13.9
C/I ratio	30.0	30.4	30.7
Credit cost	2.0	1.9	2.0
RoA	5.8	5.5	5.2
RoE	24.8	23.5	22.1
Valuations			
P/E (x)	15.7	13.0	11.0
P/BV (x)	3.5	2.7	2.2

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	66.7	66.7	73.7
DII	15.8	15.8	12.6
FII	12.0	11.5	9.6
Others	5.6	11.8	4.2

FII Includes depository receipts

Stock performance (one-year)



Best placed among peers; dominance to sustain
Still gold standard despite expected normalization in RoA

- CREDAG is well prepared to capitalize on the growing opportunity in the microfinance segment by: a) improving its ticket size with customer vintage (~48% borrowers still have a vintage of <3 years); b) adding new borrowers with a strong rural focus; c) improving branch productivity (~300 branches set up over the last two years); and d) expanding into relatively less-penetrated geographies.
- CREDAG operates in a joint liability group (JLG) model and differentiates itself in the flexibility it provides to customers through its nuanced approach. The company also provides customers with the flexibility to choose the repayment frequency (weekly/bi-weekly/monthly) based on their cash flows. Weekly center meetings are held with customers, irrespective of their repayment frequencies.
- Tight discipline in processes and practices at CREDAG will ensure strong GLP growth. We expect GLP growth to remain intact and estimate a CAGR of 21%/23% in disbursement/GLP over FY24-26.
- Under the new microfinance guidelines, all microfinance players (including CREDAG) increased their lending rates to rightly price the risks across geographies and product segments. NIM is expected to expand to ~14.5% in FY24 from ~12% in FY22. Since the company now expects to maintain opex at the current lower level, it has cut its incremental lending rate by ~50bp. This, along with a continued rise in CoB (in the near-term), will lead to a decline in NIM to ~14% by FY26E.
- CREDAG has delivered better asset quality than the industry, which shows its ability to underwrite, manage risk and collect relatively better than peers. The company uses stringent policies for asset classification and provisioning (early NPA recognition at 60dpd vs. regulatory allowance of 90dpd). However, the center meeting discipline and construct of the JLG model has undergone a change after Covid, resulting in structurally higher credit costs for the microfinance industry. For CREDAG, we model credit costs of ~2% over FY24-FY26E.
- The current valuation of 2.2x FY26E P/BV is not expensive for a franchise that will continue to deliver healthy investor returns, aided by a strong underlying business model. We estimate a PAT CAGR of ~19% over FY24-FY26E, leading to RoA/RoE of 5.2%/22% in FY26.
- We maintain our BUY rating on the stock with a TP of INR1,760 (based on 2.7x FY26E P/BV). Downside risks: a) relatively higher concentration in its top three states, which contribute ~73% to the GLP mix; and b) macroeconomic uncertainties and external events that may lead to cyclicity in its asset quality.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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Strong AUM growth aided by branch expansions and customer addition

- CREDAG's extensive presence ensures that the company does not have a concentrated exposure to any geography, mitigating any adverse impact on asset quality due to unfavorable events in a particular geography.
- The management guides for a ~20-25% AUM CAGR in the medium term, with ~8-10% coming from branch additions and 10-12% from customer additions.
- CREDAG is actively pursuing efforts to diversify its operations beyond the top three states and position itself as a well-rounded and diversified microfinance lender. For the company, states like Bihar, UP, WB, AP and Telangana will exhibit faster growth. We model an AUM CAGR of 23% over FY24-FY26E.

Impact of regulatory scrutiny on lending rates of microfinance players

- We are given to understand that the RBI is studying the pricing models of various microfinance lenders and it might come up with some guidelines, which would not necessarily include a pricing cap on lending. We believe that there will be little or no incremental impact on CREDAG from the anticipated regulatory scrutiny given that it has already cut its lending rates (aided by lower opex) by ~50bp and is among the lowest cost microfinance lenders in India.
- The full impact of the revised pricing on the portfolio yield will be gradual over the next 18-20 months. However, given that banks have been increasing their MCLR, we expect that CoB will continue to rise for the next two quarters. We expect NIM to moderate to ~14% by FY26E (FY24E: 14.5%)

Productivity improvements will help maintain tight control over opex

- The company has added ~300 branches over the last two years. These branches will reach the optimum productivity level in the next two years and contribute to cost efficiencies.
- CREDAG will continue to invest in expanding its distribution and strengthening its technology infrastructure, which will keep the cost income ratio range-bound at current levels of 30-31%.

Increase in credit costs for the industry – How is CREDAG placed?

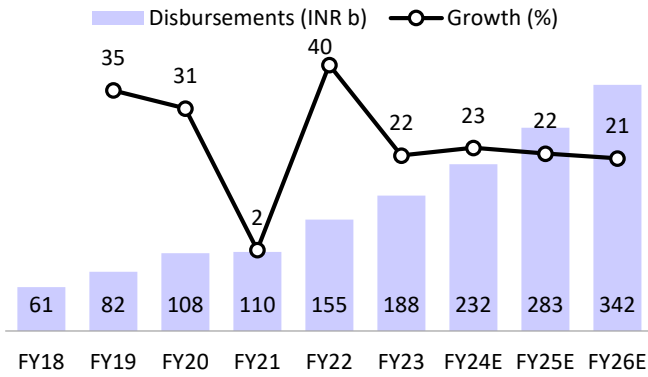
- Like CREDAG, most other industry players acknowledge that, after Covid, credit costs for the microfinance industry have structurally increased. This could be because of relatively lower attendance in center meetings, resulting in lower enforceability of the JLG model in the event of customer default in a group.
- CREDAG has demonstrated superior resilience compared to its peers during stress events such as demonetization and Covid. Further, the company follows a conservative approach in following the asset classification and provisioning norms vs. the industry (recognizes Stage 2 at >15dpd and Stage 3 at >60dpd). We expect the new normal in credit costs for CREDAG at ~2% over FY25/FY26.

Valuation and view

- CREDAG's robust execution has been vindicated by its resilience across various credit cycles and external disturbances. Despite expected NIM compression and an expected rise in credit costs, CREDAG can still deliver a PAT CAGR of ~19% over FY24-FY26E and RoA/RoE of 5.2%/22% in FY26.
- We maintain our BUY rating on the stock with a TP of INR1,760 (based on 2.7x FY26E P/BV).

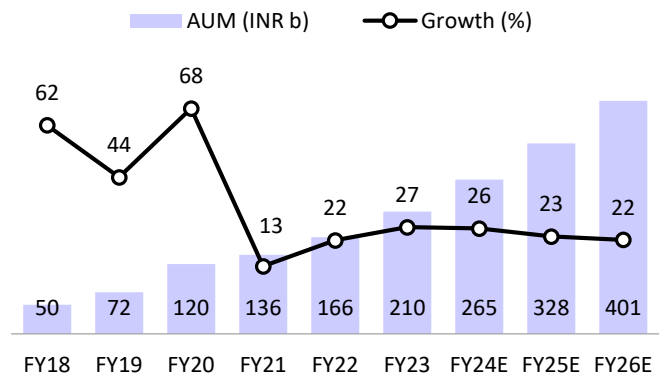
Story in charts

Exhibit 1: Disbursement CAGR of ~21% over FY24-FY26E...



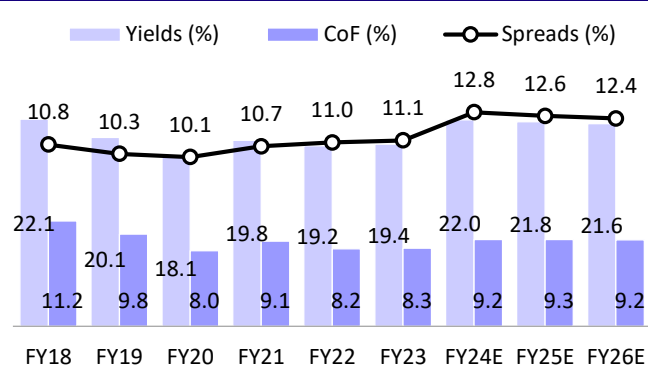
Source: MOFSL, Company

Exhibit 2: ...leading to AUM CAGR of ~23% over FY24-FY26E



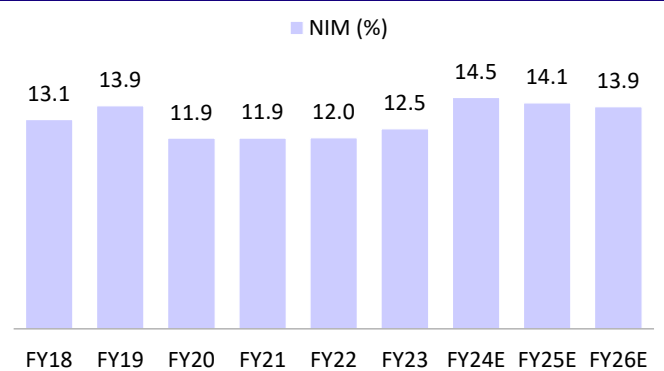
Source: MOFSL, Company

Exhibit 3: Estimate ~35bp contraction in spreads by FY26



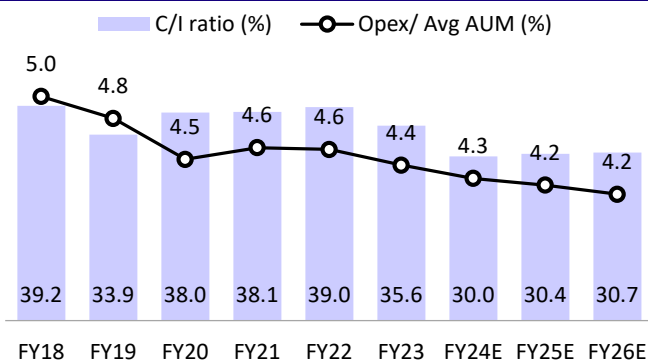
Source: MOFSL, Company

Exhibit 4: NIM to contract ~60bp over the next two years



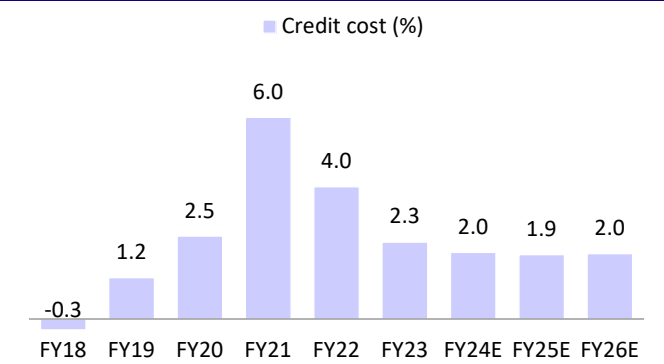
Source: MOFSL, Company

Exhibit 5: Opex/AUM to improve led by better productivity



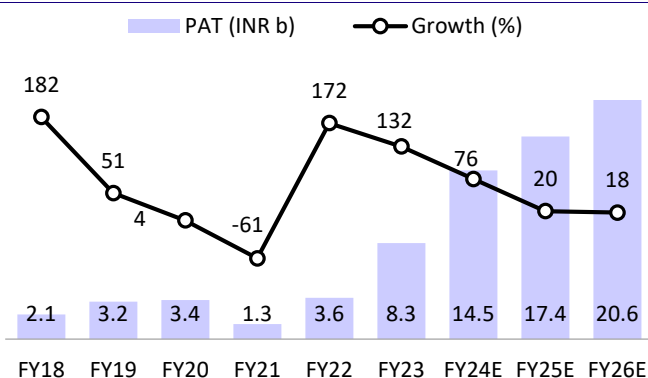
Source: MOFSL, Company

Exhibit 6: Credit cost to remain range-bound over FY25-FY26



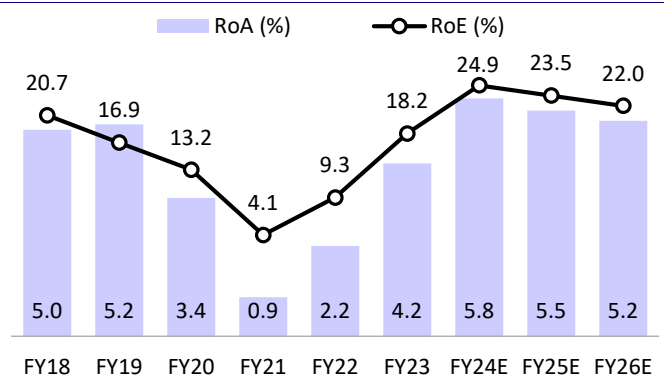
Source: MOFSL, Company

Exhibit 7: Expect PAT CAGR of ~19% over FY24-26E



Source: MOFSL, Company

Exhibit 8: ROA/ROE to decline to 5.2%/22% by FY26E

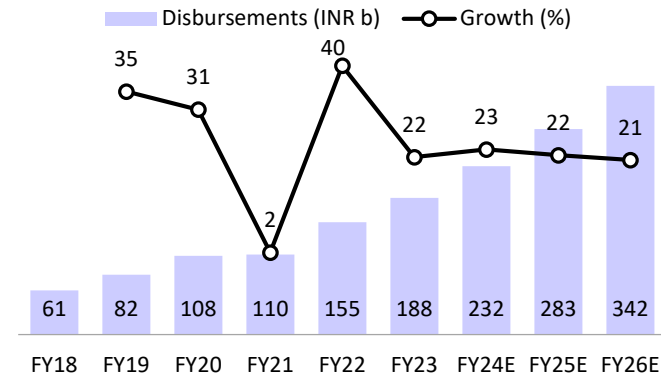


Source: MOFSL, Company

Industry-leading position with exceptional performance

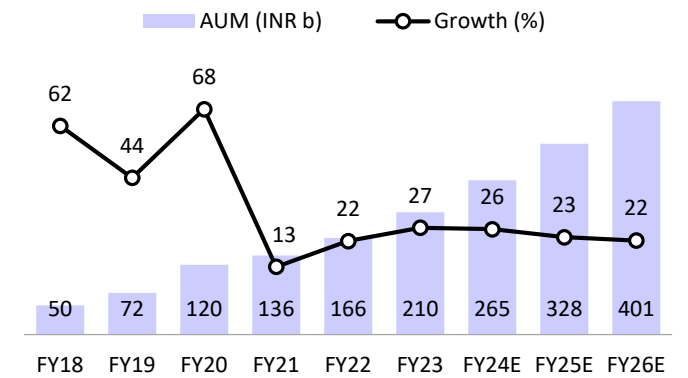
- Backed by parentage of Credit Access India B.V. (~67% stake), CREDAG caters to the financial needs of low-income rural/semi-urban households, primarily women entrepreneurs. It has scaled up its AUM at ~30% CAGR over FY19-FY24E.
- CREDAG also offers individual retail loans, under which vintage customers are offered individual unsecured loans, mortgage-backed secured business loans, new 2W loans and gold loans. Retail finance currently constitutes ~2% of the total AUM and management expects the share to increase to ~12-15% by FY27.

Exhibit 9: Disbursement CAGR of ~21% over FY24-FY26E...



Source: MOFSL, Company

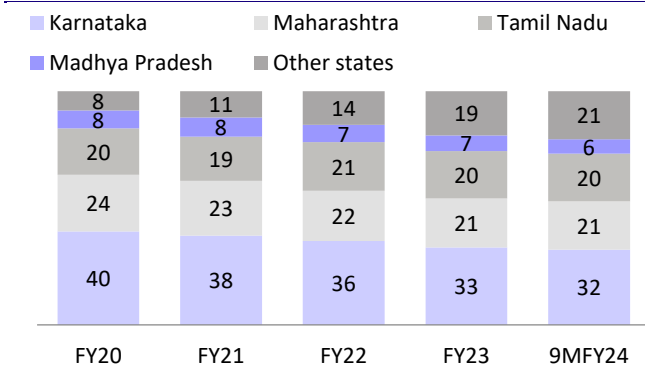
Exhibit 10: ...leading to AUM CAGR of ~23% over FY24-FY26E



Source: MOFSL, Company

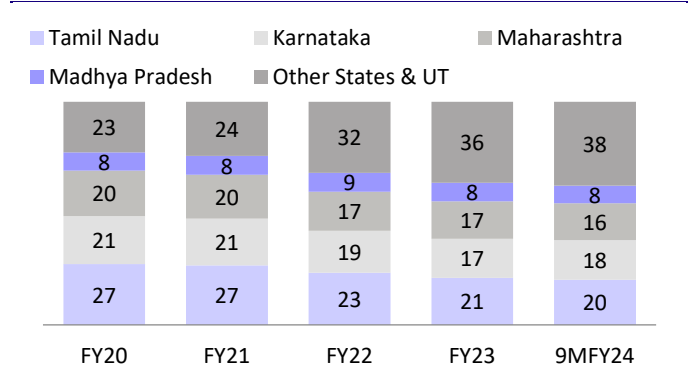
- The company has successfully completed core banking solution (CBS) upgrade without any significant impact on its business operations. Improved stability and robustness of the core banking platform will lead to higher scalability in the future. We expect a CAGR of ~21% in disbursements over FY24-FY26E.
- Tightly disciplined processes and practices at CREDAG will ensure robust growth in GLP, fueled by: a) healthy acquisition of new customers, and b) a gradual increase in loan sizes driven by borrower vintage. We expect a CAGR of ~23% in GLP over FY24-FY26E.

Exhibit 11: Diversifying GLP exposure beyond key states (%)



Source: MOFSL, Company

Exhibit 12: Expanding branches outside top 4 states (%)



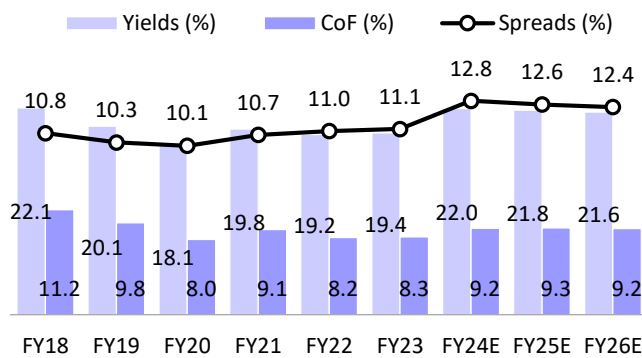
Source: MOFSL, Company

- CREDAG is actively pursuing efforts to diversify its operations beyond the top three states and position itself as a well-rounded and geographically diversified microfinance lender. As of Dec'23, the company had a network of 1,894 branches, of which ~54% (v/s 69% on Mar'20) branches are concentrated in Karnataka, Maharashtra and Tamil Nadu.

NIM moderation to be driven by lending rate cut and rising CoF

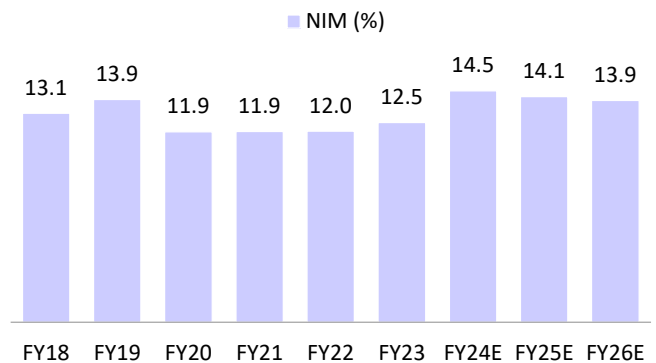
- CREDAG witnessed a significant improvement in its NIM following the harmonization of MFI lending guidelines, driven by the repricing of assets. Consequently, NIM rose ~140bp to 13.1% in 3QFY24 (from 11.7% in 3QFY22).
- Given that the company now has better control over its operating expenses, CREDAG voluntarily reduced its lending rates by ~50bp in both microfinance and retail finance, effective Dec'23. This decision positions the company favorably since any potential lending rate (or spreads) guidelines from the RBI would have minimal or no impact on CREDAG compared to its peers.

Exhibit 13: Spreads likely to moderate to ~12.4% by FY26



Source: MOFSL, Company

Exhibit 14: NIMs to contract ~60bp over next two years



Source: MOFSL, Company

- Despite the reduction of ~50bp on incremental lending, the management is confident that the company will be able to maintain its NIM guidance of 12.7%-12.8% because the full effect of revised pricing portfolio will unfold gradually over next 18-20 months. Additionally, its strong control over CoB, supported by a diversified liability profile and ongoing access to priority sector lending-linked funds, further strengthens its position.

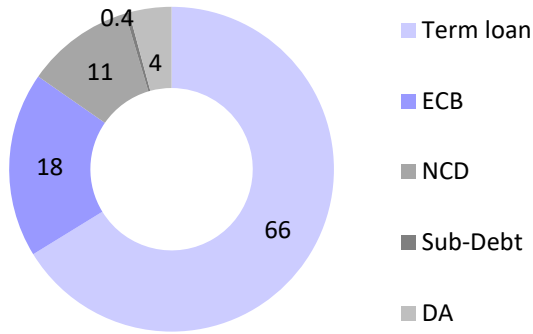
Emphasizing on dynamic liability management

- CREDAG, over the years, has built a well-diversified liability franchise. It has prioritized long-term borrowings (75% with >2-year tenor) and has also diversified its sources of borrowings between domestic and foreign sources of borrowings (~22% of the liability mix).
- The company aims to meet funding requirement through foreign/long-term sources over the medium term. It has a diverse lender base with 46 commercial banks, 3 financial institutions, 15 foreign lenders and 6 NBFCs.
- Furthermore, CRISIL raised CREDAG's credit rating from A+/Positive to AA-/Stable, aligning with the existing AA-/Stable ratings from ICRA and Ind-RA.

Exhibit 15: Evolution of credit rating for CREDAG

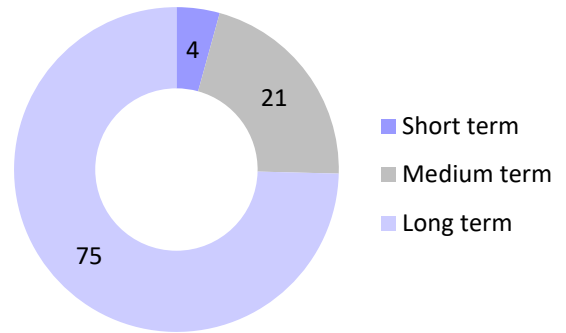
CREDAG	FY20	FY21	FY22	FY23	9MFY24
ICRA	A+ (Stable)	A+ (Stable)	A+ (Stable)	AA- (Stable)	AA- (Stable)
Ind-RA	A+ (RWN)	A+ (Stable)	A+ (Stable)	AA- (Stable)	AA- (Stable)
CRISIL	A+ (Stable)	A+ (Stable)	A+ (Stable)	A+ (Positive)	AA- (Stable)

Exhibit 16: Instrument-wise borrowing mix (%)



Source: MOFSL, Company

Exhibit 17: Tenor-wise borrowing mix (%)

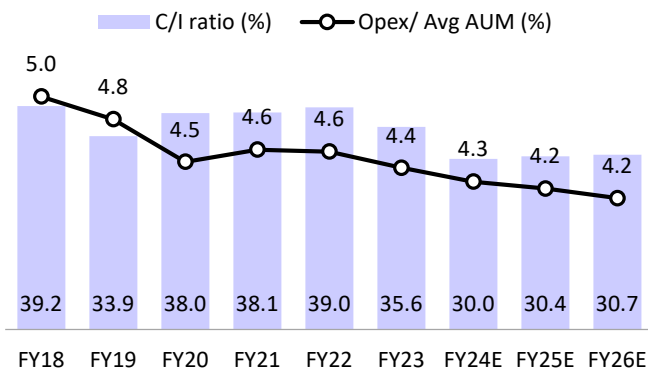


Source: MOFSL, Company

Optimal opex control through productivity enhancements

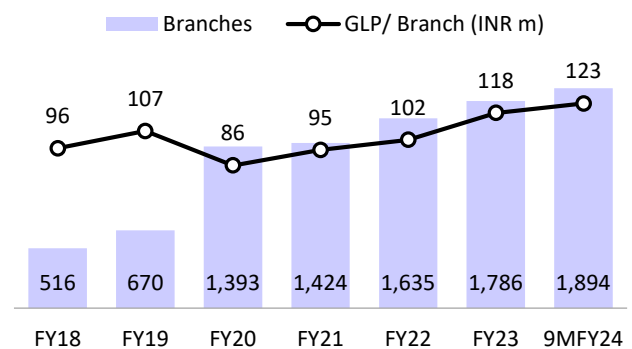
- CREDAG has an opex-intensive business model due to its rigorous processes, frequent audits, and continual investments in branches/loan officers.
- Over the past two years, the company has expanded its network by adding ~300 branches. These branches are expected to achieve optimal productivity levels within the next two years, contributing to enhanced cost-effectiveness.
- CREDAG will continue to invest in expanding its distribution and strengthening its technology infrastructure, which will keep the cost income ratio range-bound at current levels of 30-31%.

Exhibit 18: Cost ratios to improve led by better productivity



Source: MOFSL, Company

Exhibit 19: GLP per branch showing gradual improvement

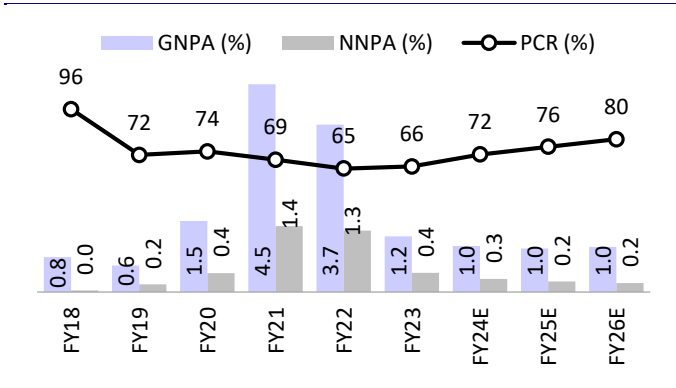


Source: MOFSL, Company

Strong asset quality maintained across cycles

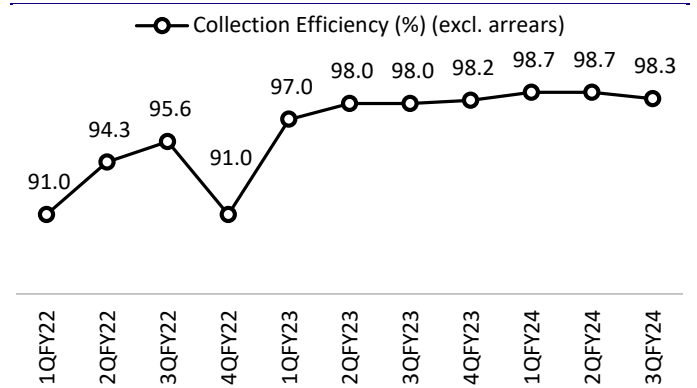
- CREDAG has demonstrated superior resilience compared to its peers during stress events, such as demonetization and Covid-19. After having pristine asset quality with a GNPA ratio of less than ~1.2%, asset quality deteriorated in the aftermath of Covid. Further, collection efficiency remained volatile during FY21 and FY22.

Exhibit 20: GNPA expected to remain range-bound over FY25-26



Source: MOFSL, Company

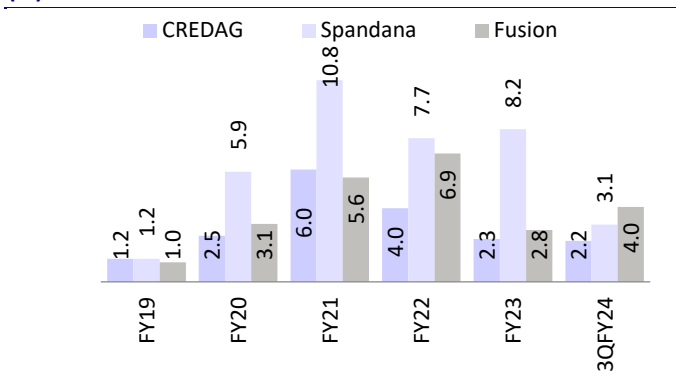
Exhibit 21: Collection efficiency has remained range-bound



Source: MOFSL, Company

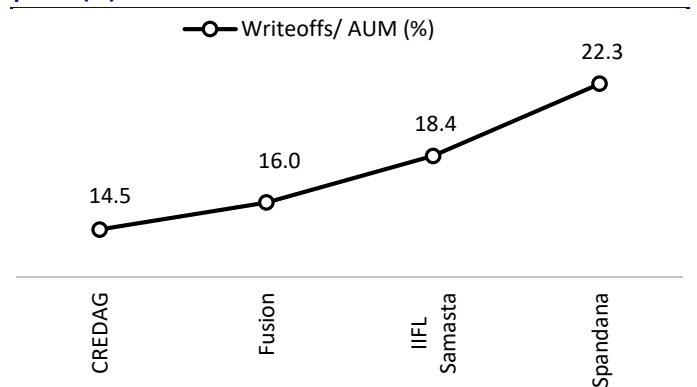
- A steady rise in collections and cautious risk management have resulted in a significant improvement in the GNPA ratio, which has declined from its peak of ~7.7% in 2QFY22 to ~1% in 3QFY24. Collection efficiency (including arrears) has also bounced back to pre-Covid levels at 98.3% in 3QFY24. We expect GNPA to stabilize at ~1% over FY25-FY26.

Exhibit 22: CREDAG with lowest credit costs among peers (%)



Source: MOFSL, Company

Exhibit 23: CREADAG exhibited lowest write-offs among peers (%)

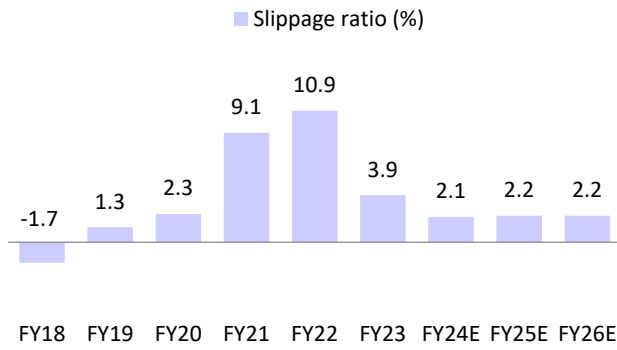


Source: MOFSL, Company

Note: Write-offs % calculated as cumulative write-offs over FY21-FY23 as a percentage of the Mar'20 GLP

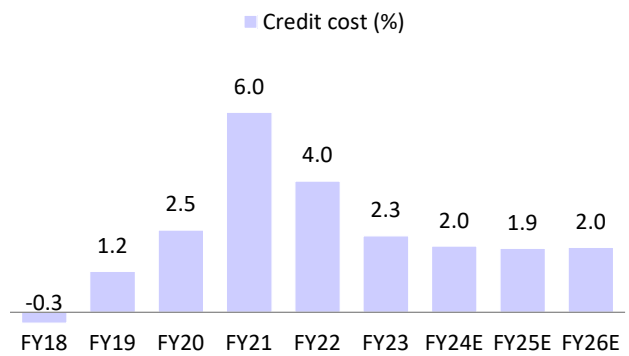
- Karnataka, Maharashtra, and Tamil Nadu collectively account for ~73% of CREDAG's GLP. While peer MFIs are contending with collection difficulties stemming from activities such as loan waiver campaigns in Punjab/Haryana, CREDAG remains unaffected given that it has no exposure in these two states. For the company, we expect credit costs to hover around ~1.9%-2.0% over FY24-26E.

Exhibit 24: Slippages to moderate to ~2.2% (%)



Source: MOFSL, Company

Exhibit 25: Expect credit costs of ~2% over FY25-FY26 (%)



Source: MOFSL, Company

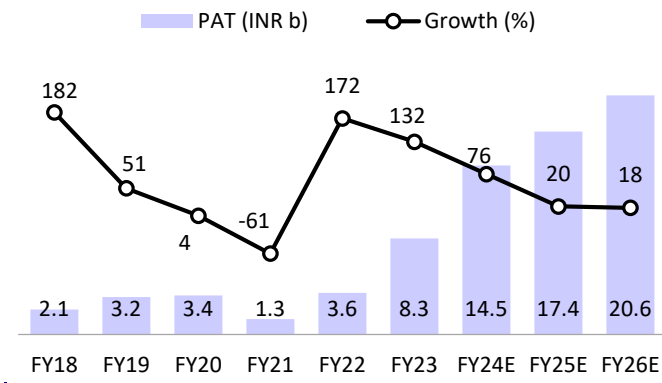
Efficient Integration of risk management into operating processes

- CREDAG's risk management practices have remained robust and have evolved over time. Key principles of the Grameen business model, such as a focus on rural markets, weekly Kendra meetings for collections, adherence to attendance discipline, and regular audits, have been consistently upheld.
- Audits occur eight times per year at branches, four times at regional offices, and four times at the head office, with automated processes for real-time analytics. Updates are provided to the Audit Committee.
- Fortnightly branch visits complement audits, identifying risks early and supporting activities like fraud investigation. The Field Risk Control team enhances proactive risk management, collaborating with field operations and quality control.
- CREDAG prioritizes employee performance through incentives, accountability, and rotation. Incentives are tied to adherence and service quality. Rotations of loan officers and branch managers enhance accountability and reduce dependency risks. Rotating audit and quality control teams ensure oversight and minimize errors.

Return ratios to remain healthy

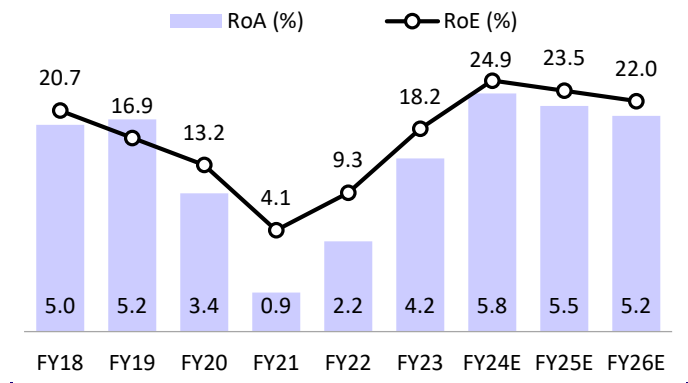
- Despite a spike in credit costs during Covid-19, CREDAG was resilient and reported RoA of 1.0%, 2.2% and 4.2% in FY21, FY22 and FY23, respectively.
- With healthy AUM growth, range-bound operating cost ratios and stable credit costs, we expect CREDAG to sustain its profitability, leading to a PAT CAGR of ~19% over FY24-FY26. With levers for operating leverage, CREDAG is primed to deliver healthy RoA/RoE of ~5.2%/~22% in FY26 despite a moderation in NIM and a slight increase in steady-state credit costs.

Exhibit 26: Expect PAT CAGR of ~19% over FY24-26E



Source: MOFSL, Company

Exhibit 27: ROA/ROE of 5.2%/22% in FY26E (%)

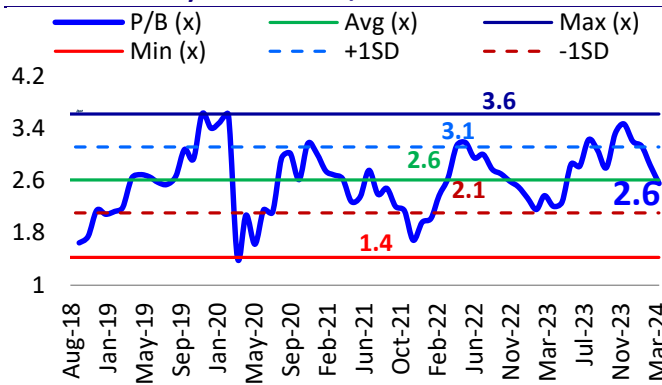


Source: MOFSL, Company

Exhibit 28: We cut our FY24/FY25/FY26 EPS estimates by ~2%/3%/~4% to factor lower other income and relatively higher credit costs

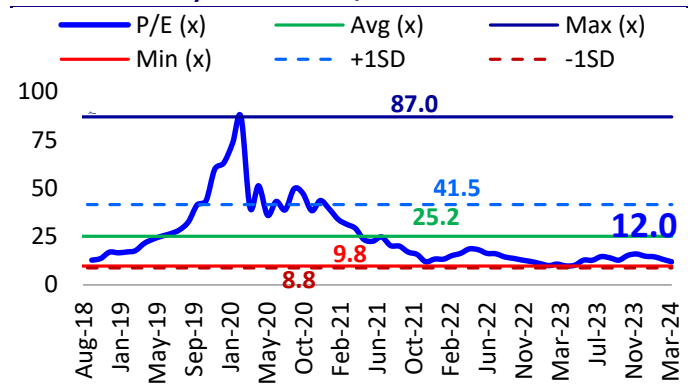
INR B	Old Est.			New Est.			% change		
	FY24	FY25	FY26	FY24	FY25	FY26	FY24	FY25	FY26
NII	31.2	38.4	46.4	31.4	38.4	46.1	0.8	-0.1	-0.7
Other Income	3.1	3.4	3.8	2.7	3.0	3.3	-12.6	-13.0	-14.0
Total Income	34.3	41.8	50.2	34.1	41.3	49.3	-0.4	-1.1	-1.7
Operating Expenses	10.5	12.9	15.5	10.2	12.6	15.1	-2.3	-2.3	-2.3
Operating Profits	23.8	28.9	34.7	23.9	28.7	34.2	0.4	-0.6	-1.4
Provisions	3.9	4.9	6.0	4.4	5.3	6.6	12.0	8.6	10.3
PBT	19.9	24.0	28.7	19.5	23.4	27.6	-1.9	-2.5	-3.8
Tax	5.1	6.1	7.3	5.0	6.0	7.0	-1.9	-2.5	-3.8
PAT	14.8	17.9	21.4	14.5	17.4	20.6	-1.9	-2.5	-3.8
AUM	265	330	404	265	328	401			
Borrowings	212	266	322	212	263	320			
RoA	5.9	5.6	5.4	5.8	5.5	5.2			
RoE	25.3	23.9	22.6	24.9	23.5	22.0			

Exhibit 29: One-year forward P/B



Source: MOFSL, Company

Exhibit 30: One-year forward P/E



Source: MOFSL, Company

Financials and Valuation

Income Statement								(INR M)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	12,183	16,334	22,900	25,673	33,271	48,737	60,353	72,916
Interest Expended	4,168	5,783	9,287	9,841	12,129	17,312	21,992	26,861
Net Interest Income	8,016	10,551	13,613	15,832	21,143	31,425	38,361	46,055
Change (%)	58.4	31.6	29.0	16.3	33.5	48.6	22.1	20.1
Other Income	650	721	1,760	1,825	2,237	2,701	2,952	3,288
Net Income	8,666	11,271	15,373	17,657	23,379	34,126	41,313	49,344
Change (%)	67.3	30.1	36.4	14.9	32.4	46.0	21.1	19.4
Operating Expenses	2,940	4,283	5,856	6,885	8,315	10,224	12,569	15,135
Operating Income	5,726	6,989	9,517	10,772	15,064	23,901	28,745	34,209
Change (%)	81.9	22.1	36.2	13.2	39.8	58.7	20.3	19.0
Provisions and W/Offs	749	2,373	7,714	5,968	4,010	4,410	5,323	6,597
PBT	4,977	4,616	1,803	4,805	11,054	19,491	23,421	27,612
Tax	1,760	1,261	490	1,237	2,794	4,970	5,972	7,041
Tax Rate (%)	35.4	27.3	27.2	25.7	25.3	25.5	25.5	25.5
PAT	3,218	3,355	1,313	3,568	8,261	14,521	17,449	20,571
Change (%)	51.4	4.3	-60.9	171.7	131.5	75.8	20.2	17.9
Proposed Dividend (Incl Tax)	0	0	0	0	0	0	0	0

Balance Sheet								(INR M)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	1,436	1,440	1,556	1,559	1,589	1,589	1,589	1,589
Reserves & Surplus	22,215	25,902	35,360	38,218	49,481	64,002	81,450	1,02,021
Net Worth	23,651	27,342	36,916	39,777	51,070	65,591	83,040	1,03,610
Borrowings	48,666	95,397	1,09,413	1,29,207	1,63,123	2,12,002	2,63,496	3,20,430
Change (%)	34.3	96.0	14.7	18.1	26.2	30.0	24.3	21.6
Other liabilities	1,257	3,163	4,264	4,964	4,389	5,230	6,235	7,438
Total Liabilities	73,574	1,25,902	1,50,592	1,73,948	2,18,581	2,82,822	3,52,771	4,31,479
Cash and bank balances	6,156	7,176	24,844	17,614	14,364	22,987	34,153	44,194
Loans and Advances	66,028	1,10,989	1,17,205	1,47,653	1,90,433	2,43,680	2,99,427	3,64,125
Change (%)	34.9	68.1	5.6	26.0	29.0	28.0	22.9	21.6
Fixed Assets	187	5,793	5,734	5,739	968	1,162	1,394	1,673
Investments	2	456	5	5	4,545	5,909	7,681	9,986
Intangible Assets		0	0	4,673	5,061	5,061	5,061	5,061
Other Assets	1,200	1,488	2,804	2,937	3,208	4,023	5,054	6,439
Total Assets	73,572	1,25,447	1,50,587	1,73,942	2,18,581	2,82,822	3,52,771	4,31,479

E: MOFSL estimates

Financials and Valuation

Ratios									(%)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	
Spreads Analysis (%)									
Yield on Portfolio	20.1	18.1	19.8	19.2	19.4	22.0	21.8	21.6	
Cost of Borrowings	9.8	8.0	9.1	8.2	8.3	9.2	9.3	9.2	
Interest Spread	10.3	10.1	10.7	11.0	11.1	12.8	12.6	12.4	
Net Interest Margin	13.9	11.9	11.9	12.0	12.5	14.5	14.1	13.9	
Profitability Ratios (%)									
RoE	16.9	13.2	4.1	9.3	18.2	24.8	23.5	22.1	
RoA (on balance sheet)	5.2	3.4	0.9	2.2	4.2	5.8	5.5	5.2	
Debt: Equity (x)	2.1	3.5	3.0	3.2	3.2	3.2	3.2	3.1	
Leverage (x)	3.3	3.9	4.3	4.2	4.3	4.3	4.3	4.2	
Efficiency Ratios (%)									
Int. Expended/Int.Earned	34.2	35.4	40.6	38.3	36.5	35.5	36.4	36.8	
Op. Exps./Net Income	33.9	38.0	38.1	39.0	35.6	30.0	30.4	30.7	
Empl. Cost/Op. Exps.	63.3	61.2	64.9	63.6	62.0	63.0	62.5	62.3	
Other Income/Net Income	7.5	6.4	11.5	10.3	9.6	7.9	7.1	6.7	
Asset quality									
GNPA	385	1,738	5,487	5,587	2,364	2,489	2,893	3,637	
NNPA	109	458	1,686	1,974	668	697	694	727	
GNPA %	0.6	1.5	4.5	3.7	1.2	1.0	0.9	1.0	
NNPA %	0.2	0.4	1.4	1.3	0.3	0.3	0.2	0.2	
PCR %	71.7	73.6	69.3	64.7	71.7	72.0	76.0	80.0	
Valuation									
Book Value (INR)	165	190	237	255	321	412	522	652	
BV Growth (%)	47.2	15.3	25.0	7.5	25.9	28.3	26.6	24.8	
Price-BV (x)		7.5	6.0	5.6	4.4	3.5	2.7	2.2	
EPS (INR)	22.4	23.3	8.4	22.9	52.0	90.9	109.8	129.5	
EPS Growth (%)	35.5	3.9	-63.8	171.2	127.1	74.9	20.8	17.9	
Price-Earnings (x)		61.1	168.6	62.2	27.4	15.7	13.0	11.0	
Dividend per share		0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Dividend Yield (%)		0.0	0.0	0.0	0.0	0.0	0.0	0.0	

E: MOFSL Estimates

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NOTES

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