Equity Research

August 12, 2021

BSE Sensex: 54526

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Financials

Q1FY22 result review and target price revision

Target price: Rs730

Target price revision

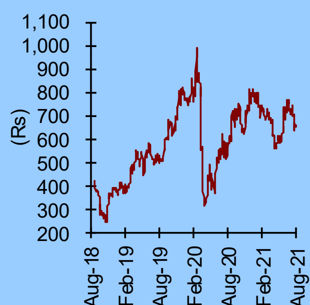
Rs730 from Rs765

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	74.0	74.0	74.0
Institutional investors	18.9	19.2	19.4
MFs and others	6.8	6.5	7.1
FIIs	12.1	12.7	12.3
Others	7.1	6.8	6.6

Source: BSE

Price chart



Listed on 22-08-2018

INDIA

CreditAccess Grameen

BUY

Maintain

Prudent provisioning impacted earnings; business normalcy witnessed in July

Rs606

CreditAccess Grameen's (CAGL) Q1FY22 standalone financial performance must be seen with respect to the management's precautionary stance, viz. writing-off loans worth Rs0.5bn, provisioning ~75% on 90+ non-paying customer pool of 4%, and still carrying Rs1.44bn provision buffer to cushion earnings from any further adverse impact due to covid. While collections were down in May'21 and Jun'21 at 79% and 84% respectively, it improved sharply in Jul'21 crossing 90%. PAR-0 as at Jul'21 stood at 22%, down from 31% in Jun'21. Disbursements fell 78% QoQ to Rs10.6bn during Q1FY22 due to lockdown, but revived sharply to Rs12.6bn in Jul'21. While near-term asset quality concerns do persist, we believe CAGL's precautionary measures in Q1FY22, strong capital position with CAR at 27%, and adequate liquidity (~16% of total assets), would ensure RoA reviving to 3.4% by FY23E. Maintain BUY with a revised target price of Rs730 (earlier: Rs765). Key risks: a) stress unfolding higher than anticipated, and b) delay in growth recovery.

- **Prudent provisioning impacted earnings.** CAGL consolidated earnings fell 64% QoQ to Rs203mn largely impacted by accelerated provision of Rs1.88bn (~1.5% of loans) and sharp 25% QoQ decline in NII. Around 7% QoQ decline in AUM led by sharp 78% fall in sequential disbursements, higher cost of borrowing at 9.6% *vs* 9.2% in Q4FY21, and de-recognition of interest income on stage-3 assets worth Rs0.213bn, impacted NII. Total borrower base fell 6% YoY to 3.78mn while average ticket size grew 20% YoY. However, taking cognisance of sharp recovery in Jul'21 in terms of collections as well as disbursements, CAGL added 66 branches in Jul'21 to focus on tapping incremental lending opportunities. Healthy capital position with CAR at 29% and strong liquidity at ~16% of total assets is likely to ensure revival in AUM growth quicker than peers.
- **Collections remained volatile in Q1FY22, but settled at a much better level of 91% by Jul'21.** CAGL's collection (ex-arrears) fell sharply to 79% in Apr'21 from 97% in Q4FY21 due to covid-led disruptions. However, its prudent approach in extending payment deferment to customers between H2May'21 until H1Jun'21, helped collections revive sharply to 91% by Jul'21. Further, as at Jul'21, the non-paying customer pool stood at only ~6.5%, of which 4% have already crossed PAR 90+ and are adequately provided. While CAGL's consolidated GNPA appears higher at 7.56%, PAR 90+ stands at 4.02%. It carries Rs1.43bn of additional ECL provision over and above the PAR 90+ portfolio. MMFL's collections were significantly lower at 66% in Jun'21, but improved sharply in Jul'21 to 83% and the non-paying customer pool too was lower at 1.7%.
- **Earning revised downward by 15% in FY22E and 1% in FY23E.** We cut FY22E/FY23E earnings estimates by ~15% / 1% respectively, as we increase our credit cost assumption for FY22E to 4% of on-balance sheet loans vs 3.6% earlier. With improved collections in July'21 and disbursement bouncing back sharply to near pre- COVID level, we broadly maintain our FY23E earnings estimates. Similarly, we cut our target price to Rs730 (earlier Rs765) as we lower target multiple to 2.4x vs 2.5x earlier on FY23E BVPS to factor near term asset quality concern.

Market Cap	Rs94bn/US$1.3bn
Bloomberg	CREDAG IN
Shares Outstanding (mn)	155.6
52-week Range (Rs)	815/561
Free Float (%)	26.0
FII (%)	12.3
Daily Volume (US$'000)	1,804
Absolute Return 3m (%)	1.7
Absolute Return 12m (%)	4.2
Sensex Return 3m (%)	11.6
Sensex Return 12m (%)	43.5

Year to Mar	FY20	FY21	FY22E	FY23E
NII (Rs bn)	11.3	15.3	16.6	19.7
Net Profit (Rs bn)	3.4	1.3	3.3	6.4
EPS (Rs)	22.8	8.9	21.2	41.1
% Chg YoY	1.6	(60.9)	138.4	93.9
BVPS (Rs)	189.9	237.4	258.6	299.7
P/E (x)	26.6	68.1	28.6	14.7
P/BV (x)	3.2	2.6	2.3	2.0
Gross NPA (%)	0.7	4.4	5.5	3.4
RoAuM (%)	3.5	1.0	2.2	3.7
RoE (%)	13.2	4.1	8.6	14.7

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- **Update on tax demand of ~Rs23.3bn.** Management highlighted that Karnataka High Court has granted an interim stay on the assessment order, demand notice and computation sheet dated 25th Jun'21, issued for assessment year 2018-19 by the National Faceless Assessment Centre of the Income Tax Department. Until 11th Aug'21, CAGL had not received any further order / clarification / communication paper from IT department.

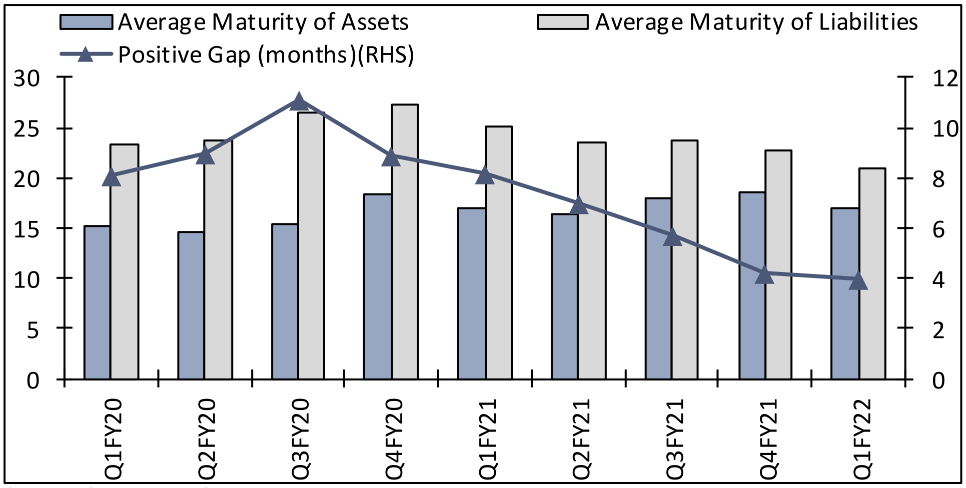
Table 1: Q1FY22 result review

(Rs mn)

	FY20 (stand)	FY21 (stand)	FY21 (consol)	% YoY (stand)	Q1FY22 (stand)	Q1FY22 (consol)	Q1FY22 (stand)	% YoY (stand)	Q4FY21 (stand)	% QoQ (stand)
Interest income	16,835	20,275	23,193	*20%*	5,101	6,161	5,101	*0%*	6,071	*-16%*
Interest expenses	5,710	7,401	9,287	*30%*	1,963	2,493	1,851	*6%*	1,860	*6%*
Net interest income	**11,125**	**12,875**	**15,320**	*16%*	**3,138**	**3,668**	**3,250**	***-3%***	**4,211**	***-25%***
Total income	**11,133**	**12,911**	**15,374**	*16%*	**3,148**	**3,680**	**3,256**	***-3%***	**4,229**	***-26%***
Employee expense	2,596	2,996	3,800	*15%*	801	1,006	767	*4%*	762	*5%*
Other operating expenses	1,638	1,503	2,056	*-8%*	377	509	244	*55%*	471	*-20%*
Total operating expenses	**4,235**	**4,499**	**5,856**	*6%*	**1,178**	**1,516**	**1,011**	***17%***	**1,233**	***-4%***
Pre provisioning profits	**6,899**	**8,412**	**9,518**	*22%*	**1,970**	**2,165**	**2,245**	*-12%*	**2,996**	*-34%*
Provisions & Write offs	2,390	6,469	7,714	*171%*	1,563	1,879	1,390	*12%*	2,002	*-22%*
Profit/Loss before Tax	**4,509**	**1,943**	**1,804**	*-57%*	**408**	**286**	**855**	***-52%***	**994**	***-59%***
Tax Expense	1,234	519	490	*-58%*	111	83	219	*-49%*	271	*-59%*
Profit/Loss after Tax	**3,275**	**1,424**	**1,314**	*-57%*	**296**	**203**	**636**	***-53%***	**723**	***-59%***
(Rs mn)										
Disbursements for the period	1,03,890	96,410	1,10,104	*-7%*	-		460	-100%	41,430	-100%
Gross loan portfolio O/S	98,960	1,13,410	1,35,870	*15%*	1,06,250	1,26,640	96,800	10%	1,13,420	-6%
Securitised / Assigned loans	0	0	0	*0*	0	82	0		82	
Borrowings	78225.6	87,557	1,10,243	*12%*	78,534	96,716	79,690	-1%	87,557	-10%
Cash & Other liquid balances	5,804	18,746	24,844	*223%*	18,001	22,219	11,725	54%	18,746	-4%
Key metrics										
Active borrowers ('000)	2,831	2,805	3,912	*-1%*	2,725	3,785	2,802	-3%	2,805	-3%
Average ticket size (Rs)	33,193	38,963	34,812	*17%*	37,626	33,458	32,791	15%	38,963	-3%
Branches (nos.)	929	964	1,424	*4%*	964	1,424	929	4%	964	0%
Kendras (nos.)	200	206	N/A	*3%*	-		195	-100%	206	
Borrowers / loan officer (nos.)	496		409	*-100%*	-		515	-100%	496	-100%
Stage 3 %	1.57%	4.38%	4.43%	72 bps	8.12%	7.56%	1.63%	649 bps	4.38%	374 bps
NNPA %	0.00%	0.00%	0.00%		0%	0%	0%	0 bps	0%	0 bps
ROA tree (reported) - on AUM				**YoY (bps)**				**YoY (bps)**		**QoQ (bps)**
Gross yield										
Portfolio Yield	19.40%		20.33%	-60 bps	18.40%		20.50%	-210 bps	18.60%	-20 bps
Finance Cost	9.90%		9.03%	-50 bps	9.30%		9.40%	-10 bps	8.90%	40 bps
NII	**12.10%**		12.26%	-60 bps	**10.50%**	11.22%	**12.50%**	**-200 bps**	**11.30%**	**-80 bps**
Operating Cost	4.90%		4.24%	-10 bps	0.00%	4.68%	4.10%	-410 bps	4.60%	-460 bps
Impairment on Financial Instruments	2.86%		6.03%	169 bps	5.88%	5.73%	5.68%	20 bps	7.44%	-155 bps
Taxes*					0.42%		0.90%	-48 bps	1.01%	-59 bps
Return on Loans*	**3.60%**		0.95%	-140 bps	**1.40%**	0.56%	**2.42%**	**-103 bps**	**2.18%**	**-78 bps**

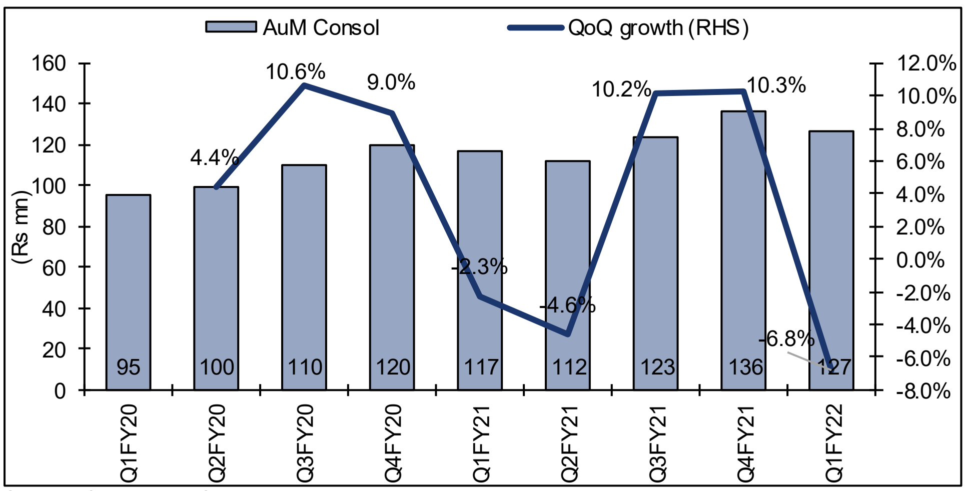
Source: Company, I-Sec research

Chart 1: Positive ALM mismatch at ~4 months



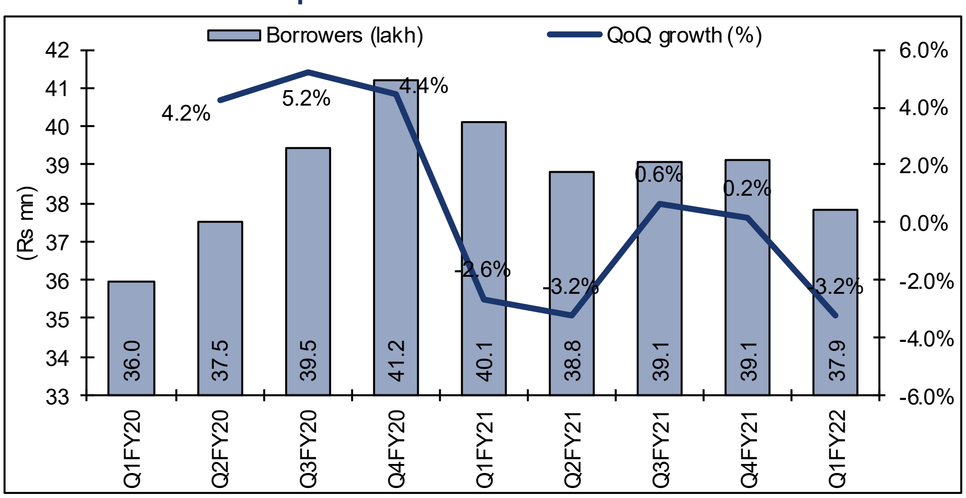
Source: Company, I-Sec research

Chart 2: AUM fell sharply by 7% QoQ



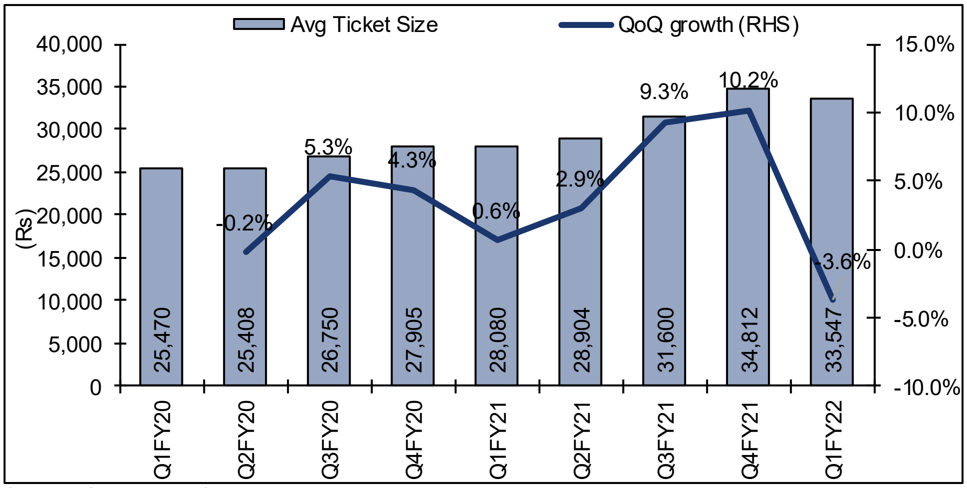
Source: Company, I-Sec research

Chart 3: Customer acquisition remained muted



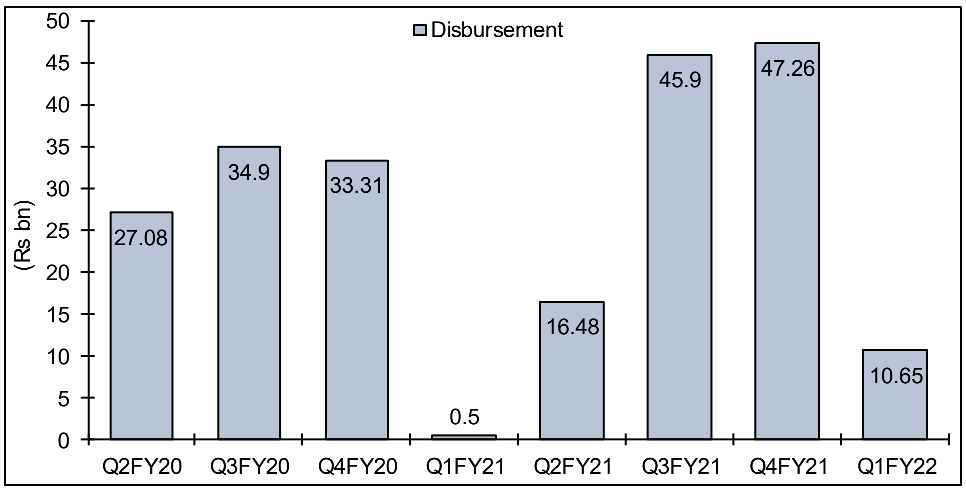
Source: Company, I-Sec research

Chart 4: Average ticket size fell 3.6% QoQ…



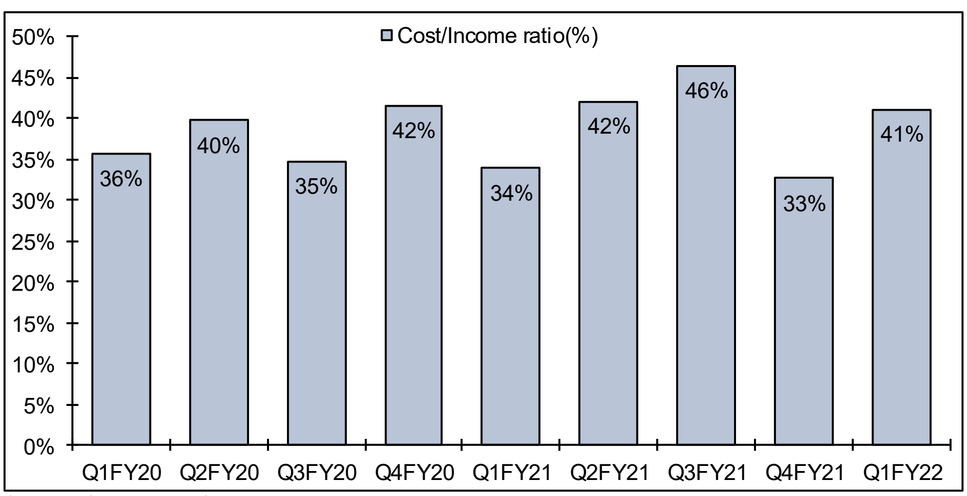
Source: Company, I-Sec research

Chart 5: … due to 78% QoQ fall in disbursements; however, it revived sharply to ~Rs12.6bn in Jul'21



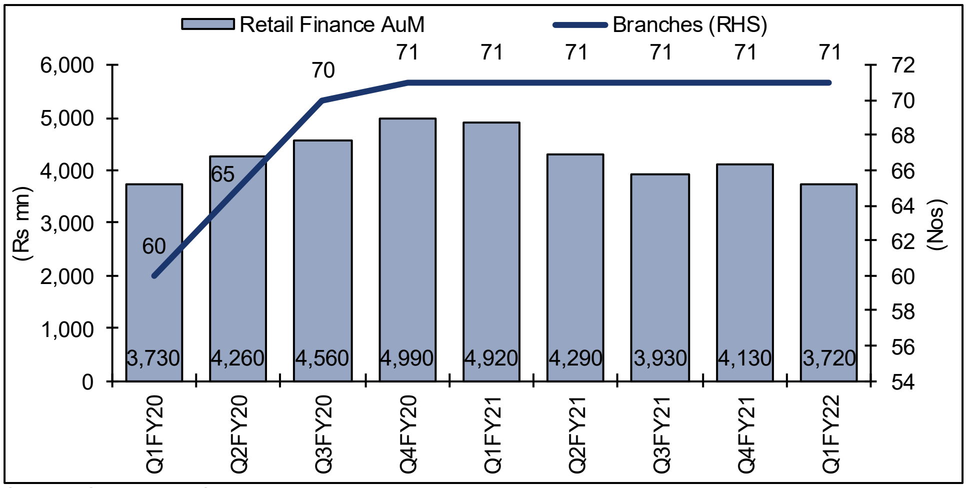
Source: Company, I-Sec research

Chart 6: Cost/income ratio increased to 41% due to lower revenues



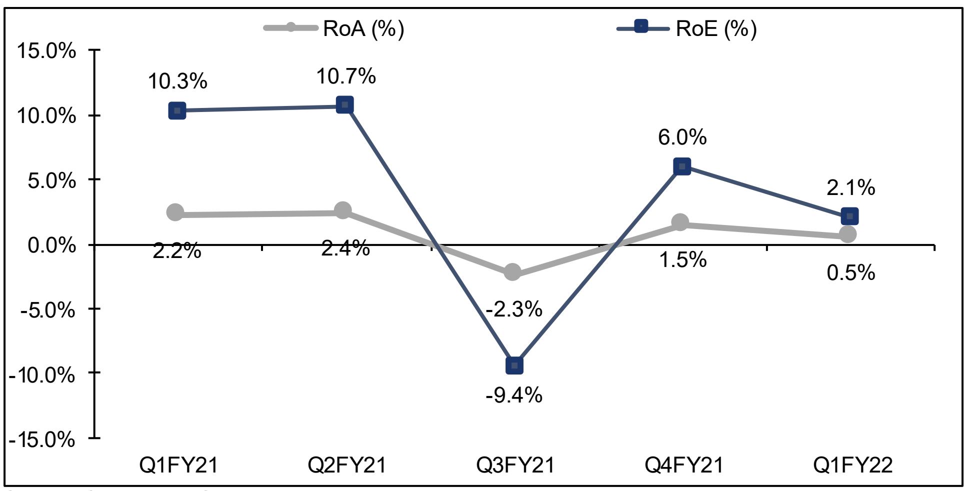
Source: Company, I-Sec research

Chart 7: Retail finance book fell 10% QoQ (now 3% of consolidated AuM)



Source: Company, I-Sec research

Chart 8: Return ratios fell due to accelerated provision and muted revenues



Source: Company, I-Sec research

Financial summary

Table 2: Profit and Loss statement

(Rs mn, year ending March 31)

Year to March	FY20	FY21	FY22E	FY23E
Interest Income: (I)	**16,430**	**23,193**	**26,507**	**31,393**
Interest Expense	**5,783**	**9,287**	**10,710**	**12,558**
Net Interest Income: (I) - (II)	**11,260**	**15,320**	**16,559**	**19,742**
Growth in NII YoY	***31%***	***36%***	***8%***	***19%***
Net revenues	**11,271**	**15,374**	**16,612**	**19,795**
Operating expense	**4,283**	**5,856**	**6,953**	**8,428**
- Employee exp	2,621	3,800	4,056	4,837
YoY growth	*41%*	*45%*	*7%*	*19%*
- Other Operating Expenses	1,447	1,585	2,350	2,940
- Depreciation	216	471	547	651
Operating profit	**6,989**	**9,518**	**9,659**	**11,367**
Provisions and Contingencies	2,373	7,714	5,251	2,820
PBT	**4,616**	**1,804**	**4,409**	**8,547**
Tax Expense	1,261	490	1,110	2,151
Reported Net PAT	**3,355**	**1,314**	**3,299**	**6,396**

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

Year to March	FY20	FY21	FY22E	FY23E
Networth	**27,342**	**36,915**	**40,214**	**46,610**
Equity Shares (Nos)	**143.99**	**155.50**	**155.50**	**155.50**
Capital	1,440	1,555	1,555	1,555
Reserves & Surplus	25,902	35,360	38,659	45,055
Borrowings	95,397	1,10,243	1,26,902	1,47,586
Other Liabilities & Prov	3,157	3,435	7,044	6,832
Total Liabilities (BS)	**1,25,896**	**1,50,592**	**1,74,160**	**2,01,028**
Advances (on book AUM)	**1,10,989**	**1,17,205**	**1,46,834**	**1,74,832**
Cash & Bank	7,176	24,844	19,158	18,093
DTA	574	1,041	871	1,005
Fixed Assets	317	242	254	266
Other Assets	6,839	7,261	7,044	6,832
Total Assets (BS)	**1,25,896**	**1,50,592**	**1,74,160**	**2,01,028**

Source: Company data, I-Sec research

Note – From FY20 onwards all numbers are on consolidated basis.

Table 4: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Growth Ratios (YoY %)				
Net Interest Income	*31.2%*	*36.1%*	*8.1%*	*19.2%*
Opex	*45.7%*	*36.7%*	*18.7%*	*21.2%*
PPoP	*23.6%*	*36.2%*	*1.5%*	*17.7%*
PAT	*6.6%*	*-60.8%*	*151.1%*	*93.9%*
AuM	*67.6%*	*13.3%*	*16.2%*	*19.1%*
Asset quality Ratios (%)				
GNPA %	*0.7%*	*4.4%*	*5.5%*	*3.4%*
NNPA %	*0.0%*	*0.0%*	*0.0%*	*0.0%*
PCR	*100%*	*100%*	*100%*	*100%*
Profitability Ratios (%)				
RoA	3.4	1.0	2.0	3.4
RoAuM	3.5	1.0	2.2	3.7
RoE	13.2	4.1	8.6	14.7
Cost/AuM	4.5	4.6	4.7	4.9
Employee/AuM	2.7	3.0	2.8	2.8
Other opex/AuM	1.7	1.6	2.0	2.1
Per share data Rs)				
EPS (diluted)	22.8	15.8	43.1	54.0
YoY growth	*1.6%*	*-30.6%*	*172.8%*	*25.2%*
Book Value per share	189.9	236.9	280.0	334.0
YoY growth	*15.3%*	*24.8%*	*18.2%*	*19.3%*
Valuation				
P/E (x)	26.6	68.1	28.6	14.7
P/B (x)	3.2	2.6	2.3	2.0
Business Ratios (%)				
Yield on AuM (on balance sheet)	*18.6%*	*20.3%*	*20.1%*	*19.5%*
Cost of Borrowing	*8.0%*	*9.0%*	*9.0%*	*9.2%*
NIM	*12.7%*	*13.4%*	*12.5%*	*12.3%*
NIM (ex DA income)	*12.1%*	*12.3%*	*12.0%*	*11.8%*
Credit cost	*2.7%*	*6.8%*	*4.0%*	*1.8%*
Cost/Income ratio	*38.0%*	*38.1%*	*41.9%*	*42.6%*
ROA Tree				
Yield on AuM	*16.5%*	*16.8%*	*16.3%*	*16.7%*
Other income	*0.6%*	*1.1%*	*0.5%*	*0.5%*
Cost of Funds (Interest Expended/Avg. BS)	*5.8%*	*6.7%*	*6.6%*	*6.7%*
Net Interest Margin	*11.3%*	*11.1%*	*10.2%*	*10.5%*
Operating Costs (Opex/ Avg. Total Assets)	*4.3%*	*4.2%*	*4.3%*	*4.5%*
Cost to Income (Opex/Net Revenue)	*38.0%*	*38.1%*	*41.9%*	*42.6%*
Credit cost	*2.5%*	*6.0%*	*3.6%*	*1.6%*
RoA	*3.4%*	*1.0%*	*2.0%*	*3.4%*
RoE (Avg. networth)	*13.2%*	*4.1%*	*8.6%*	*14.7%*
Leverage (BS/NW)	*4.60*	*4.08*	*4.33*	*4.31*

Source: Company data, I-Sec research

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