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Financials

Company update

Target price: Rs1,300

Shareholding pattern

	Mar '22	Jun '22	Sep '22
Promoters	73.9	73.8	73.7
Institutional investors	19.1	19.4	19.6
MFs and others	10.9	10.7	10.1
FIs	8.2	8.8	9.5
Others	7.0	6.8	7.2

Source: BSE

ESG disclosure score

Year	2020	2021	Chg
ESG score	NA	NA	NA
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

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

Source: Bloomberg, I-sec research

Research Analysts:

Renish Bhuva

renish.bhuva@icicisecurities.com
+91 22 6807 7465

Kunal Shah

kunal.shah@icicisecurities.com
+91 22 6807 7572

Chintan Shah

chintan.shah@icicisecurities.com
+91 22 6807 7658

INDIA



CreditAccess Grameen

BUY
Maintain

Business fundamentals intact; all set to breach historical profitability

Rs862

We reiterate our BUY rating on CreditAccess Grameen (CA Grameen) and believe the sharp correction (>10%) in stock price over past 15 days is unwarranted considering the strong H1FY23 performance and sector tailwinds. Company is well positioned to maintain its leadership in the MFI space as reflected in its incremental share in MFI lending at >8% vs outstanding market share of 6% as of Sep'22. Further, it has laid down its goal to become the preferred financial partner for 10mn low-income households lacking access to credit, by 2025.

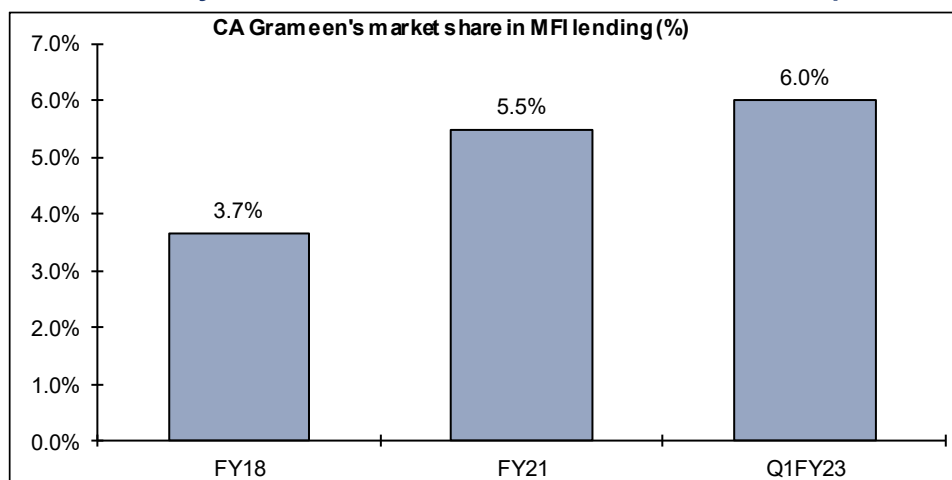
We believe CA Grameen is well placed to deliver >4% RoA driven by credit cost moderation in H2FY23E (2.7% in Q2FY23), NIM expansion and continued growth momentum. Post migrating to risk-based pricing method in Apr'22, it has increased lending rate by ~130bps and this has started reflecting in its blended asset yields. Portfolio yield expanded by a sharp 70bps QoQ to 19.1% in Q2FY23 vs 18.4% in Q1FY23. Considering that the bulk of stress recognition and provision requirement was already absorbed during FY21-FY22, and that the stress book is negligible with PAR 0 at 3% (PAR 90 at 1.8%), we expect credit cost to settle at <2% in FY24E.

- **Poised to maintain leadership in MFI space; commands incremental market share of >8% as of Sep'22 in MFI credit.** A two-decade experience in handling various credit cycles in the MFI space has helped CA Grameen to build a sustainable, scalable and resilient business model. Strong recovery in credit demand post pandemic and steady improvement in asset quality reinforces our view that the MFI space is in for a strong upcycle over the next couple of years. While CA Grameen remained cautious during the covid phase, it accelerated growth Jun'21 onwards. AUM growth remained robust at 24% YoY in Sep'22 and management remains confident of delivering >25% growth for full-year FY23. The target seems realistic given its incremental credit AUM market share at >8% vs outstanding market share of 6% as of Sep'22.
- **Vision 2025: Harmonised MFI regulation to ensure successful execution.** CA Grameen, post its >2 decades in the microfinance space, laid down its aspiration to become the preferred financial partner for **10mn low-income households** lacking access to credit, by 2025. Company is piloting various new innovative products (e.g. payment products, saving & investment products via partnerships, insurance, etc.) designed on the evolving needs of its core target customer base.
- **Improved visibility on delivering >4% RoA in FY24E; margin expansion and normalisation of credit cost to drive profitability.** Post the removal of pricing cap, CA Grameen implemented risk-based pricing, which would likely lead to asset yield expansion in the coming quarters. Further, recent credit rating upgrade may result in lower cost of borrowing going ahead. Management expects 60-70bps margin expansion in FY23 and a further 50-60bps in FY24. Considering that the bulk of stress recognition and provision requirement was already absorbed during FY21-FY22, and that the stress book is negligible with PAR 0 at 3%, we expect credit cost to settle at <2% in FY24E.

Market Cap	Rs134bn/US\$1.6bn	Year to Mar	FY21	FY22E	FY23E	FY24E
Bloomberg	CREDAG IN	NII (Rs bn)	15.3	17.6	22.3	28.4
Shares Outstanding (mn)	156.1	Net Profit (Rs bn)	1.3	3.6	8.0	10.6
52-week Range (Rs)	1154/525	EPS (Rs)	8.9	22.9	51.3	68.3
Free Float (%)	26.0	% Chg YoY	(60.9)	157.4	123.9	33.1
FII (%)	9.5	BVPS (Rs)	237.4	255.2	306.5	374.8
Daily Volume (US\$'000)	1,994	P/E (x)	96.9	37.6	16.8	12.6
Absolute Return 3m (%)	(16.1)	P/BV (x)	3.6	3.4	2.8	2.3
Absolute Return 12m (%)	62.3	GNPA (%)	4.4	3.6	3.0	2.5
Sensex Return 3m (%)	4.2	RoAuM (%)	1.0	2.2	4.0	4.4
Sensex Return 12m (%)	7.1	RoE (%)	4.1	9.3	18.3	20.0

Please refer to important disclosures at the end of this report

- ▶ **Expanded target market and leadership in MFI space to ensure industry-leading growth going ahead.** CA Grameen (on standalone basis) delivered a robust 35% AUM CAGR between FY17-FY22, driven by 15% CAGR in customer base during the same period. Considering the expanded target market post MFI regulation harmonisation ([Link](#)) and the company's deep distribution network (~1,675 branches), we expect CAGL to deliver a robust 23% CAGR over FY22-FY24E.
- ▶ **Focus on new customer acquisition.** In the past 2 years, net borrower base declined to 3.8mn from 4.1mn pre-covid as management was cautious in acquiring new customers given pandemic-led disruption. Higher write-offs during the past 6 quarters also resulted in decline in the borrower base. However, with collections reaching near-normal levels and completion of process migration as per the revised regulations, management resumed customer acquisition in Q2FY23. It acquired 0.76mn new customers on standalone basis and added 0.15mn on net basis. On a consolidated basis, net customer base expanded by 3% QoQ – highest QoQ growth in past 8 quarters. Further, bulk of the new customer acquisition was outside CA Grameen's top-3 states (Maharashtra, Tamil Nadu, Karnataka). Company expects Rajasthan, Jharkhand, Uttar Pradesh, Bihar and Gujarat to be its new key growth drivers.
- ▶ **Risk-based pricing approach to improve profitability.** Under the earlier pricing regime, lending yield was determined on the basis of 10% spread over borrowing cost, hence pricing was not appropriately capturing the structural upmove in normalised credit cost over a period. As a result, NBFC-MFIs like CA Grameen were following formula-based pricing instead of risk-based pricing. Considering the structural upmove in normalised credit cost from 20-25bps pre-demonetisation to 60-70bps pre-covid, CA Grameen has hiked its lending rate by 130bps during past six months. This would drive higher profitability than the historical average given flexibly in determining lending rates based on the prevailing credit cycle.
- ▶ **Geographical diversification to remain key strategic goal.** CA Grameen has adopted contiguous expansion rather than quickly building a pan-India network. Hence, its top-3 states' (MH, TN & KTK) contribution still remains higher at ~80% in FY21. But the company intends to reduce it to 60-65% by 2025 as a part of its 2025 Vision. CA Grameen has already identified new growth states, which include inter alia Madhya Pradesh, Chhattisgarh and Rajasthan.
- ▶ **Stressed pool continues to subside at an accelerated pace.** PAR portfolio continues to improve – PAR 0 / 30 / 60 / 90 for CAGL fell to 2.4% / 1.9% / 1.6% / 1.4% by Sep'22 from 3.6% / 3.0% / 2.6% / 2.3% in Mar'22. Similarly, for MMFL it fell to 6.8% / 4.8% / 3.9% / 3.3% by Sep'22 from 11.1% / 7.5% / 5.9% / 4.9% in Mar'22, respectively. The improvement was driven by steady collections at ~97% (ex-arrears) throughout Q2FY23 for CA Grameen, while collections for MMFL remained lower at ~94%. Collections, ex-NPL customers, remained at ~99% for CAGL and ~96% for MMFL. The restructured pool too remained lower at only 0.5% for CAGL. Total stressed pool stands at 3% (PAR 0 2.4% + restructured book at 0.5%) for CA Grameen against which it carries ECL provision of 2.5%.
- ▶ **Key risks:** i) Stress unfolding higher than expected, and ii) lower-than-expected AUM growth.

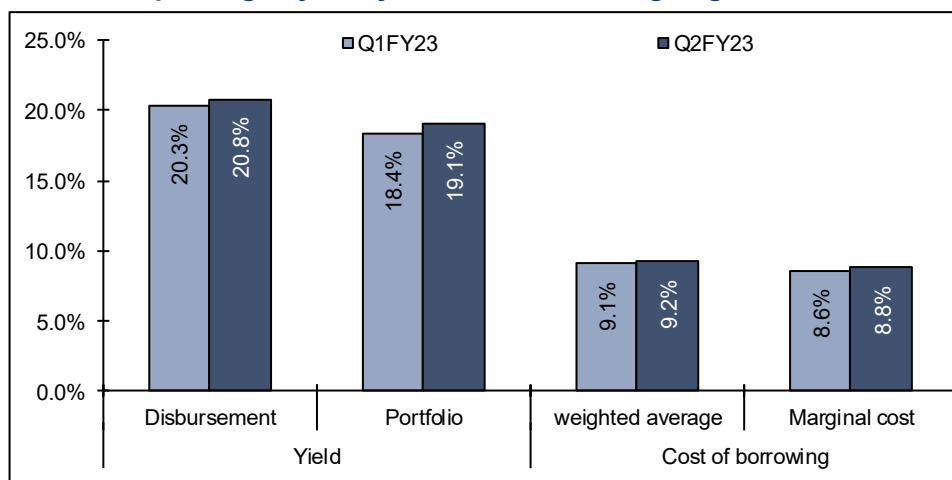
Chart 1: Steady increase in credit market share to 6% as of Sep'22

Source: Company data, I-Sec research

Table 1: CA Grameen's financial performance during H1FY23 was in line with guidance

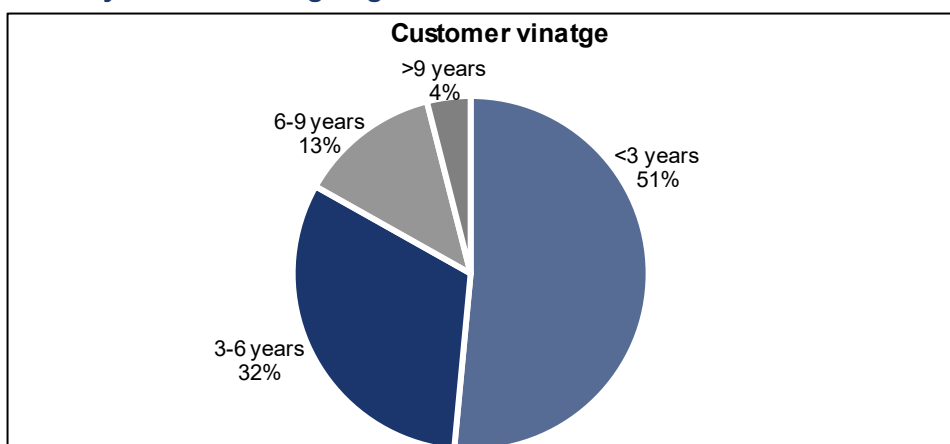
	Guidance FY23	Q2FY23	H1FY23
GLP -Growth (%)	24%-25%	24%	24%
Credit Cost (Provisions + Write-offs) – % of Avg. On-Book Loan Portfolio	1.8%-2.0%	0.7% (non-annualised)	1.4% (non-annualised)
RoA (%)	4%-4.2%	4%	3.50%
RoE (%)	16%-18%	16.10%	14.80%

Source: Company data, I-Sec research

Chart 2: Improving trajectory in NIMs to sustain going forward

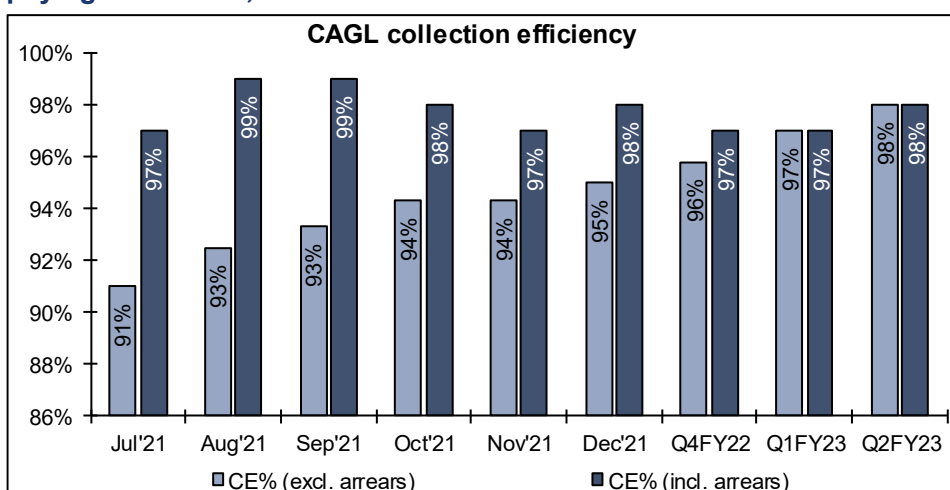
Source: Company data, I-Sec research

Chart 3: Share of borrowers with >3 years vintage stood at 48%; it improves visibility on cross-sell going forward



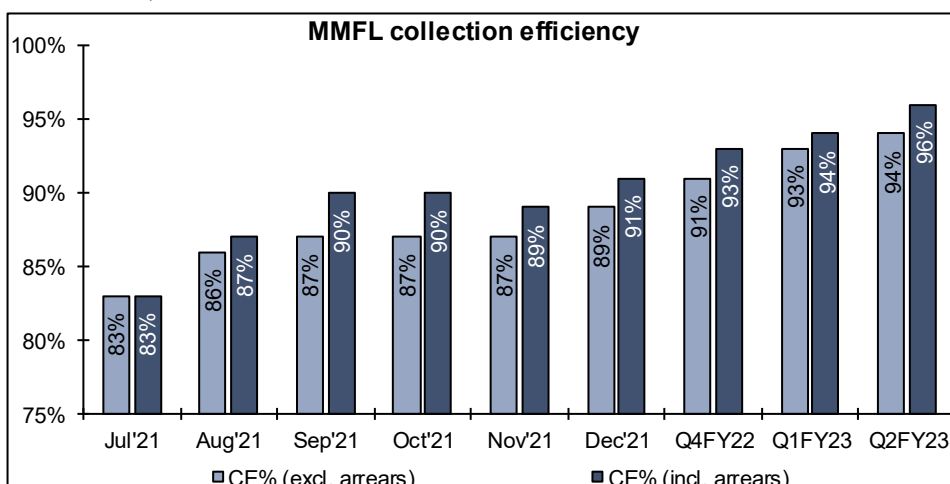
Source: Company data, I-Sec research. Data as on Dec'21

Chart 4: Collection efficiency in Q2FY23 for CA Grameen, adjusted for non-paying customers, is near-normal at ~99%

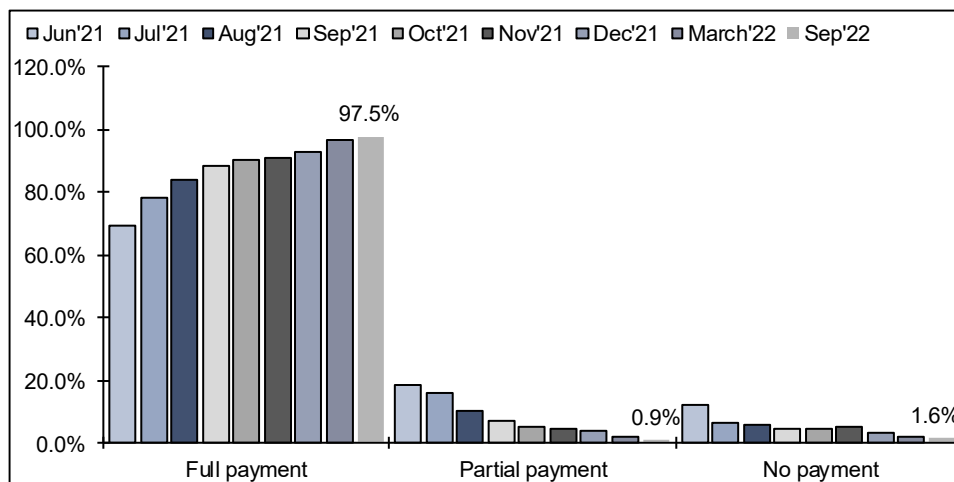


Source: Company data, I-Sec research

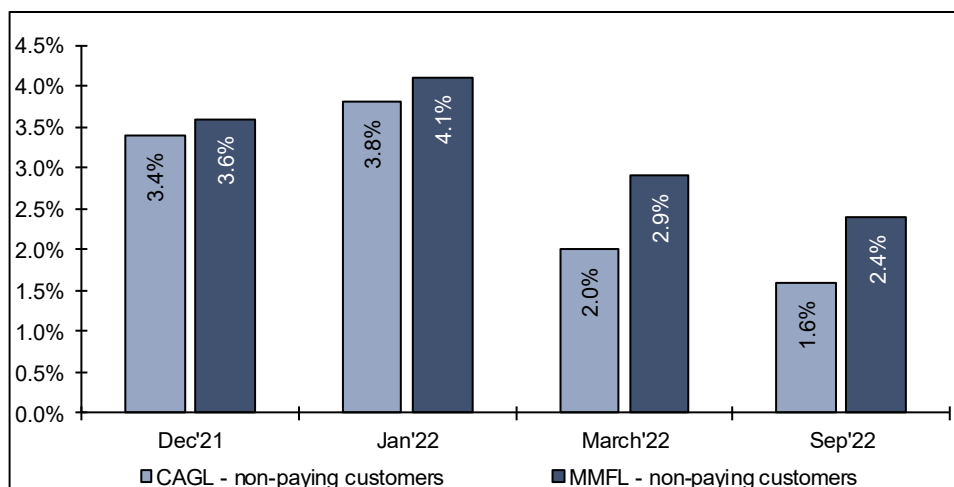
Chart 5: MMFL's collection efficiency in Q2FY23, adjusted for non-paying customers, stood at ~99%



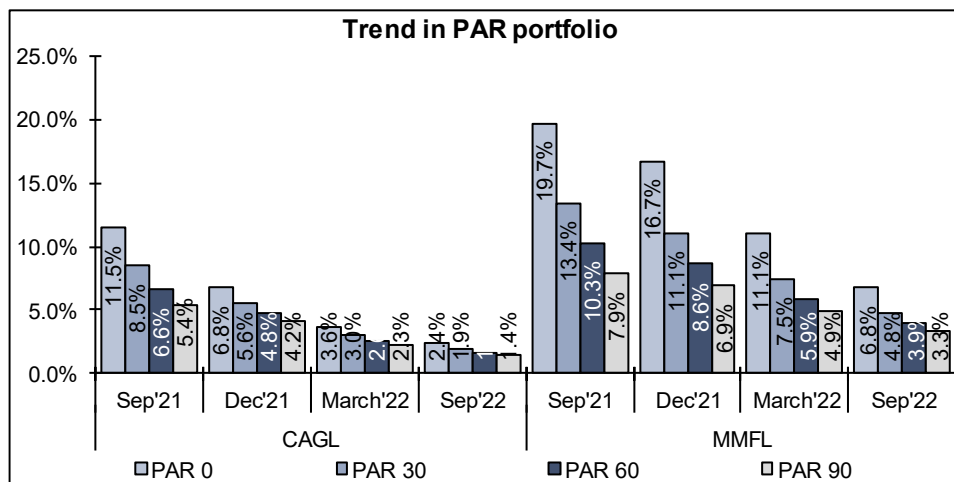
Source: Company data, I-Sec research

Chart 6: Encouraging customer activation rate...

Source: Company data, I-Sec research

Chart 7: ... resulted in steady decline in non-paying customer pool for CA Grameen

Source: Company data, I-Sec research

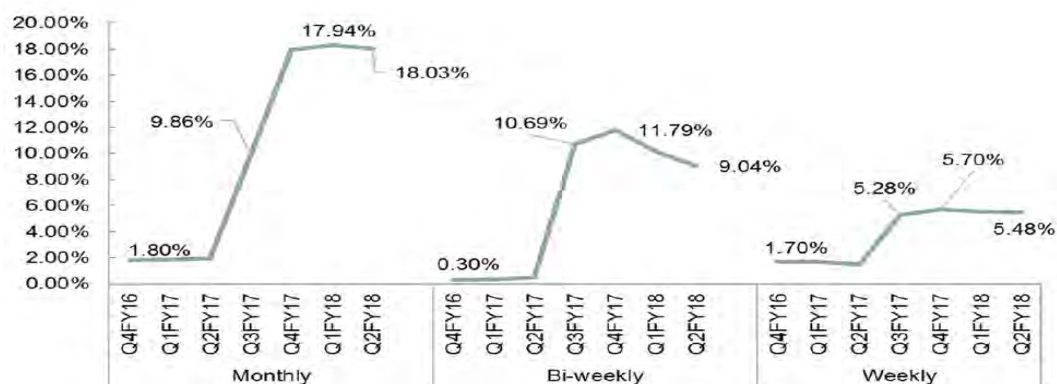
Chart 8: Forward flow from PAR 0 to PAR 90 portfolio, for CA Grameen has been significantly lower since Sep'21

Source: Company data, I-Sec research

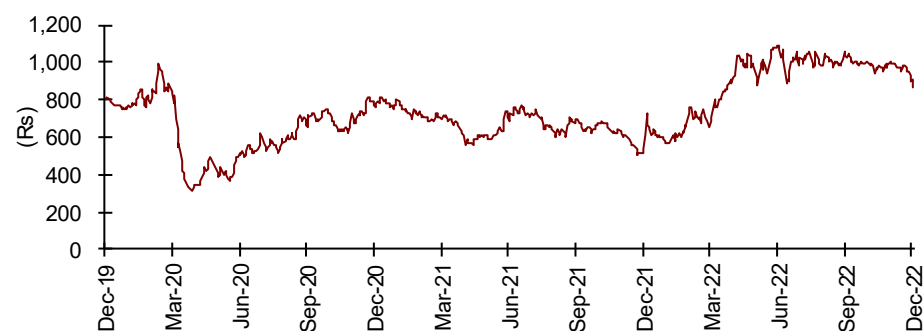
Table 2: Business resilience – CA Grameen performed relatively better across cycles

RoA tree	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Yield on AuM	17.9%	22.0%	19.8%	19.4%	16.5%	16.8%	16.3%	17.6%	18.0%
Other income	2.7%	0.2%	0.3%	1.0%	0.6%	1.1%	0.7%	0.6%	0.5%
Cost of Funds (Interest Expended/Avg. BS)	9.2%	9.9%	8.2%	6.7%	5.8%	6.7%	6.1%	6.8%	6.8%
Net Interest Margin	8.7%	12.1%	11.9%	13.8%	11.3%	11.1%	10.8%	11.2%	11.7%
Operating Costs (Opex/ Avg. Total Assets)	5.1%	5.0%	4.7%	4.7%	4.3%	4.2%	4.2%	4.2%	4.3%
Cost to Income (Opex/Net Revenue)	44.5%	40.7%	39.2%	34.2%	38.0%	38.1%	39.0%	37.4%	36.7%
Credit cost	0.7%	3.9%	-0.3%	1.2%	2.5%	6.0%	4.0%	1.8%	1.6%
RoA	3.7%	2.5%	4.9%	5.0%	3.4%	1.0%	2.2%	4.0%	4.4%
RoE (Avg. networth)	19.9%	14.0%	20.0%	16.6%	13.2%	4.1%	9.3%	18.3%	20.0%
Leverage (BS/NW)	6.11	5.16	3.56	3.11	4.60	4.08	4.37	4.67	4.52

Source: Company data, I-Sec research

Chart 9: Historically, players with weekly collection perform better

Source: Equifax, CRISIL Research, I-Sec research

Price chart

Source: Bloomberg

Financial summary

Table 3: Profit and Loss statement

(Rs mn, year ending March 31)

Year to March	FY21	FY22E	FY23E	FY24E
Interest income	23,193	26,418	34,865	43,766
Interest charges	9,287	9,841	13,589	16,654
Net interest income	15,323	17,587	22,314	28,377
NII growth	36%	15%	27%	27%
Net revenues	15,374	17,660	22,387	28,450
Operating expense	5,856	6,885	8,377	10,433
- Employee exp	3,800	4,377	4,946	5,866
YoY growth	45%	15%	13%	19%
- Other opex	1,585	2,006	2,803	3,801
- Depreciation /amortisation	471	502	628	765
Pre-provision profit	9,518	10,775	14,010	18,017
Provisions	7,714	5,967	3,324	3,796
PBT	1,804	4,808	10,686	14,221
Taxes	490	1,237	2,690	3,579
PAT (excl. extraordinary)	1,314	3,571	7,996	10,642

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

Year to March	FY21	FY22E	FY23E	FY24E
Share capital	1,555	1,559	1,559	1,559
Reserves and surplus	35,360	38,218	46,214	56,856
Shareholders' fund	1,10,243	1,30,081	1,66,955	1,97,061
Total borrowings	3,435	4,090	8,581	8,323
Sources of funds	1,50,592	1,73,948	2,23,308	2,63,798
Loans & advances	1,17,205	1,47,653	1,93,180	2,35,340
Cash and cash equivalents	24,844	15,806	20,098	18,466
DTA	1,041	1,325	1,117	1,319
Fixed assets	242	318	334	351
Other current assets	7,261	8,846	8,581	8,323
Uses of funds	1,50,592	1,73,948	2,23,308	2,63,798

Source: Company data, I-Sec research

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

Table 5: Key ratios

(Year ending March 31)

	FY21	FY22E	FY23E	FY24E
Growth Ratios (YoY %)				
Net Interest Income	36.1	14.8	26.9	27.2
Opex	36.7	17.6	21.7	24.5
PPoP	36.2	13.2	30.0	28.6
PAT	-60.8	171.8	123.9	33.1
AuM	13.3	22.2	25.1	21.8
Asset quality Ratios (%)				
GNPA %	4.4	3.6	3.0	2.5
NNPA %	0.0	0.4	0.0	0.0
PCR	100	70	100	100
Profitability Ratios (%)				
RoA	1.0	2.2	4.0	4.4
RoAuM	1.0	2.4	4.3	4.6
RoE	4.1	9.3	18.3	20.0
Cost/AuM	4.6	4.6	4.5	4.5
Employee/AuM	3.0	2.9	2.6	2.5
Other opex/AuM	1.6	1.7	1.8	2.0
Per share data Rs)				
Diluted EPS	8.9	22.9	51.3	68.3
EPS growth (%)	-60.9	157.4	123.9	33.1
Book value per share	237.4	255.2	306.5	374.8
BVPS growth (%)	25.0	7.5	20.1	22.3
Valuation				
P/E (x)	96.9	37.6	16.8	12.6
P/B (x)	3.6	3.4	2.8	2.3
ROA Tree				
Yield on AuM	16.8	16.3	17.6	18.0
Other income	1.1	0.7	0.6	0.5
Cost of Funds (Interest Expended/Avg. BS)	6.7	6.1	6.8	6.8
Net Interest Margin	11.1	10.8	11.2	11.7
Operating Costs (Opex/ Avg. Total Assets)	4.2	4.2	4.2	4.3
Cost to Income (Opex/Net Revenue)	38.1	39.0	37.4	36.7
Credit cost	6.0	4.0	1.8	1.6
RoA	1.0	2.2	4.0	4.4
RoE (Avg. networth)	4.1	9.3	18.3	20.0
Leverage (BS/NW)	4.08	4.37	4.67	4.52
Capital Ratios				
Total CAR	27	23	22	23
Tier 1	26	22	22	23
Tier 2	1	1	0	0

Source: Company data, I-Sec research

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