

Pain Bottoming Out in Q2; Outlook From H2FY26 Optimistic!
Est. Vs. Actual for Q1FY26: NII – INLINE; PPOP – INLINE; PAT – MISS
Changes in Estimates post Q1FY26
FY26E/27E (in %): NII: -2.1/-3.2; PPOP: -1.2/-3.6; PAT: -2.2/-5.2
Recommendation Rationale

- **Asset Quality to Improve; Monthly PAR Accretion Across Most Geographies Trending Downwards:** CAGrameen's Collection Efficiency (CE) improved to 93.2% in Q1FY26 (93.5% in Jun'25) vs 91.9% in Q4FY25, with improvement visible across all geographies (slightly delayed in KA). The management indicated that the collections (incl. KA) in Jul'25 have been stable and expects a similar strong trend to continue over Aug-Sep'25. CAGrameen has seen the PAR15+ accretion rate trend downwards to 0.46% in Jun'25 vs 0.84% in Mar'25, indicating lower incremental credit costs. The management expects new PAR accretion trends in KA to trend downwards in Q2, though with a lag compared to other geographies. PAR buckets roll forward rates also appear to have stabilised. The company also continues to witness collections in PAR buckets, with 41% of borrowers in PAR 1-60 and 9% of borrowers in PAR 60+ making partial payments. **With monthly trends PAR accretions indicating continued improvement across geographies, the management remains confident of credit costs tapering meaningfully in Q2 and further down in H2FY26. The management has maintained its credit costs guidance of 5.5-6% for FY26.**
- **Growth Momentum to Resume as Challenges Fade Gradually:** With the monthly PAR accretion on a continued downward trend, the focus will shift towards resuming growth from H2FY26 onwards. CAGrameen aims to maintain a monthly customer addition run-rate of 1 Lc customers. While H1 will remain impacted due to the accelerated write-offs, the management is confident of clocking its guided run-rate of customer addition over H2. Furthermore, the rejection rates on account of the more stringent MFIN guardrails 2.0 have inched up by 5-10% and should keep pace of customer additions muted in Q2, before improving in H2. Hereon, the company's focus will remain on pursuing balanced growth in the MFI portfolio while onboarding quality new-to-credit customers. **The management expects MFI growth to settle at 13-15% on a steady state basis, with the retail finance portfolio being the key growth driver for overall AUM growth pegged at ~20-25%.**

Sector Outlook: Cautiously Optimistic

Company Outlook: CAGrameen has been successfully navigating the challenges of the recent MFI credit downcycle and exhibited resilience as it gradually inches closer to normalcy. With the fresh stress accretion across states gradually easing, Q2 is expected to be the last of the pained quarters from a provisioning perspective, with H2 credit costs likely to taper meaningfully. The optimism around GLP growth picking up from H2 onwards is encouraging. With the company looking to pursue balanced growth in the MFI segment, GLP growth will be led by the retail finance portfolio, as CAGrameen targets to improve its mix in the portfolio to 12-15% by FY28E. We expect CAGrameen to revert to its RoA delivery of 4.5+% from FY27E, supported by (a) Strong GLP growth, (b) Steady Margin Profile, (c) Controlled Opex, and (d) Meaningfully lower credit costs. Resultantly, we factor in a strong GLP/NII/Earnings CAGR growth of 18/13/54% over FY25-28E, with RoA/RoE delivery of 4.5-4.6%/18-19% over the same period.

Current Valuation: 2.5x FY27E BV Earlier Valuation: 2.25x FY27E BV
Current TP: Rs 1,485/share; Earlier TP: Rs 1,350/share
Recommendation: We maintain our BUY recommendation on the stock.

Financial Performance:

- **Operational Performance:** CAGrameen added ~2.16 Lc borrowers during the quarter, of which ~43% were new-to-credit customer. The total customer base stands at ~4.6 Mn customers (-8.5/-2.8% YoY/QoQ). In the past year, 53.6% (vs 52.8% in Q4FY25) of the new customer additions have been from outside of Top-3 states. Disbursements growth improved YoY (+22% YoY) though declined QoQ (-16% QoQ, owing to seasonality). MFI GLP de-grew by 5/1% YoY/QoQ. The retail finance continues to grow at a healthy pace, registering a growth of 134/16% YoY/QoQ, albeit on a smaller base. The share of the retail finance portfolio now stands at 6.8% vs 2.9% YoY. Total AUM growth was muted and flatish both YoY and QoQ.
- **Financial Performance:** NII growth was in line with our expectations and grew by 3% QoQ, though it de-grew by 2% YoY. Yields declined by 10bps QoQ, while CoF also improved by 10bps QoQ. NIMs stood at 12.8% vs 12.7% QoQ. Non-interest income grew by 41% QoQ and was flat YoY. Opex growth was higher at 12/11% YoY/QoQ. This was mainly owing to higher employee expenses. The C-I Ratio inched up to 33.5% vs 31.8% QoQ. PPOP de-grew by 8% YoY and grew by 3% QoQ. Provisions declined marginally QoQ (-2% QoQ). Credit costs at 8.8% vs 9.2% QoQ. PAT grew by 27% QoQ and was down 85% YoY.
- **Asset Quality:** CAGrameen has undertaken accelerated write-off of 180+ dpd and non-paying loan accounts, to the tune of Rs 693 Cr in Q1FY26, which resulted in an additional credit cost of Rs 193 Cr. GNPA/NNPA stood at 4.7/1.78% vs 4.76/1.73% QoQ.

Key Financials (Consolidated)

(Rs Cr)	Q1FY26	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	906	+3.4	-2.2	903	+0.3
PPOP	653	+3.0	-7.9	645	+1.3
Net Profit	60	+27.5	-84.9	69	-12.8
NNPA (%)	1.8	+5 bps	+133 bps	1.6	+20 bps
RoA (%)	0.9	+19 bps	-453 bps	1.0	-11 bps

Source: Company, Axis Securities Research

 (CMP as of 22nd July, 2025)

CMP (Rs)	1,280
Upside /Downside (%)	16%
High/Low (Rs)	1,355/750
Market cap (Cr)	20,450
Avg. daily vol. (6m) Shrs.	15,77,483
No. of shares (Cr)	16.0

Shareholding (%)

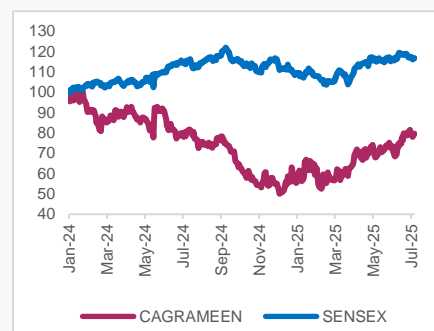
	Dec-24	Mar-25	Jun-25
Promoter	66.5	66.4	66.4
FII's	9.8	11.4	11.9
MFs / UTI	12.0	10.6	10.3
Others	11.7	11.6	11.4

Financial & Valuations

Y/E Mar (Rs Cr)	FY26E	FY27E	FY28E
NII	3,785	4,449	5,255
PPOP	2,730	3,222	3,817
Net Profit	872	1,648	1,941
EPS (Rs)	54.6	103.2	121.5
BV (Rs)	490.1	593.3	714.8
P/BV (x)	2.6	2.2	1.8
RoA (%)	2.9	4.6	4.6
NNPA (%)	1.5	1.1	0.9

Change in Estimates (%)

Y/E Mar	FY26E	FY27E
NII	-2.1	-3.2
PPOP	-1.2	-3.6
PAT	-2.2	-5.2

Relative Performance


Source: AceEquity, Axis Securities Research

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Key Highlights

Growth In Bihar To Pick Up: So far, CAGrameen has been cautious in growing its Bihar (BHR) portfolio and consciously pulled back growth to protect portfolio quality, given higher credit costs in the state vs industry. With the company's course corrective actions made towards strengthening the collection team and towards controlling attrition, CAGrameen expects to resume its growth journey in the state.

Efforts To De-Leverage Portfolio: The GLP % of borrowers with 3+ lenders declined significantly from 25.3% in Aug'24 to 14.7% in Mar'25 and further down to 11.1% in Jun'25. Similarly, GLP % of borrowers with > Rs 2 Lakh unsecured indebtedness declined from 19.1% in Aug'24 to 9.5% in Jun'25. The company's unique borrowers as a % of GLP/Borrower base stood at 36.4/33% in Jun'25 vs 34.1/31.1% in Mar'25.

Retail Finance To Be A Key Growth Driver; MFI Growth To Be Balanced: CAGrameen expects MFI growth to moderate to 13-15% on a steady state basis, with Retail Finance growth being the key growth driver. The management has reiterated its intent to improve the share of retail loans to 12-15% of the overall portfolio by FY28E vs ~6.8% currently. Currently, a bulk of the Retail Finance book is skewed towards unsecured business loans (~Rs 1,300 Cr), mainly given to existing MFI customers who graduated to retail finance. These customers are primarily from the core geographies of KA, MH, TN and MP. The PAR30+ in the unsecured business loans portfolio, which has been trending at ~2% has seen an inch-up by 75-80bps QoQ primarily owing to stress in KA. However, the management is confident of this tapering over the next few quarters.

While near-term growth will be driven by unsecured business loans, the company also expects better growth to be driven by the secured retail assets and Home Loans over the medium term. Resultantly, its share is expected to be 50% over the medium term in the retail portfolio vs ~25-30% currently. Growth will be driven by deepening penetration in the existing geographies (KA, MH, TN and MP) while gradually expanding into other districts and geographies where the company is already present.

For FY26, CAGrameen has guided for flattish growth in group MFI in H1FY26 owing to accelerated write-offs, with growth momentum resuming from H2FY26 and delivering an 8-12% GLP growth. The heavy lifting on GLP growth in FY26 would be done by the Retail Finance portfolio. The management remains confident of delivering a consistent healthy GLP growth of 20-25%, with MFI growth settling at 13-15%. We expect CAGrameen to deliver a healthy ~18% CAGR growth, mainly driven by the scale-up of the retail finance portfolio.

NIMs To Remain Range-Bound: CAGrameen expects NIMs to remain range-bound between 12.6-12.8% in FY26, with the impact of higher interest reversals being visible in H1FY26. In Q1, the interest reversal stood at Rs 88 Cr, and is expected to remain in a similar range in Q2. However, this is expected to taper from Q3 onwards, thereby supporting NIMs. CAGrameen continues to diversify its borrowing mix by improving the mix of foreign borrowings to 25-30% by FY28 vs ~22.4% currently. The impact of the repo rate cut will reflect in the CoF in the forthcoming quarters, driving CoF downwards. A majority of the borrowings are MCLR-linked with an annual reset, resulting in the benefit of a rate cut reflecting with a lag. While the CoF in Q1 improved by 8bps QoQ, the management expects a sizeable downward repricing in CoF to be visible in Q4 and early-FY27. **We expect NIMs to remain range-bound between 12.8-12.9% over FY26-28E.**

Controlled Opex Growth: In Q1FY26, employee expenses appeared optically higher owing to a lower employee-related expenses (provisions towards annual performance bonus) in Q4FY25. Moreover, in Q1FY26, the company strengthened its team and added 54 branches, driving higher Opex growth. Over FY26, CAGrameen plans to add 200 branches, mainly over the next 2 quarters. However, **the company will consciously exercise strict control on operating costs, whilst factoring in the continued efforts on PAR bucket collections and investment in new branch infrastructure for future growth. C-I Ratio is expected to remain range-bound between 32-34% over FY26-28E.**

Outlook

CAGrameen is expected to restart its growth trajectory from H2FY26, as asset quality concerns gradually fade. We trim our NII/Earnings estimates by ~2-3%/2-5% over FY26-27E, factoring in near-term headwinds on NII and Earnings and continued investments towards branch infrastructure and scaling up of Retail Finance portfolio over the medium term. We factor in GLP/NII/Earnings growth of 18/13/54% CAGR over FY25-28E.

Valuation & Recommendation

We value CAGrameen at 2.5x FY27E BV vs. its current valuation of 2.2x FY27E BV, to arrive at a revised target price of Rs 1,485/share, implying an upside of 16% from the CMP. **We maintain our BUY recommendation on the stock backed by expectations of improving growth visibility and a favourable asset quality outlook.**

Key Risks to Our Estimates and TP

- The key risk to our estimates remains a slowdown in overall disbursement and AUM growth, which could potentially derail our earnings estimates.
- Slowdown in growth momentum in newer geographies or inability to scale up business in new geographies.
- Continued Asset Quality concerns could impact credit costs and thereby weigh on earnings growth.

Change in Estimates

	Revised			Old			% Change		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
NII	3,785	4,449	5,255	3,866	4,595	-	-2.1	-3.2	-
PBP	2,730	3,222	3,817	2,763	3,341	-	-1.2	-3.6	-
Provisions	1,564	1,019	1,223	1,571	1,018	-	-0.5	0.1	-
PAT	872	1,648	1,941	892	1,737	-	-2.2	-5.2	-

Source: Axis Securities Research

Results Review (Consolidated)

Rs Cr	Q1FY26	Q1FY25	% YoY	Q4FY25	% QoQ
Net Interest Income	906	927	-2.2	876	3.4
Non-Interest Income	75	75	0.1	53	41.2
Operating expenses	329	293	12.1	296	11.0
Staff Cost	221	188	17.8	175	26.1
Pre-provision profits	653	709	-7.9	634	3.0
Provisions and contingencies	572	175	227.5	583	-1.9
PBT	81	535	-84.8	51	58.8
Provision for Tax	21	137	-84.7	4	440.8
PAT	60	398	-84.9	47	27.5

Business Update

Disbursements	5,458	4,476	21.9	6,472	-15.7
AUM	26,055	26,304	-0.9	25,948	0.4
<i>MFI</i>	24,271	25,542	-5.0	24,405	-0.5
<i>Retail Finance</i>	1,784	762	134.1	1,543	15.6
Cost-Income ratio (%)	33.5	29.2	424bps	31.8	165bps
Yields (%)	20.3	21.0	-70bps	20.4	-10bps
Cost of Funds (%)	9.7	9.8	-10bps	9.8	-10bps
NIMs (%)	12.8	13.0	-20bps	12.7	10bps

Asset Quality

Gross NPA (%)	4.7	1.5	324bps	4.8	-6bps
Net NPA (%)	1.8	0.5	133bps	1.7	5bps
PCR (%)	62.1	69.2	-705bps	67.5	-540bps

Capital Adequacy

CRAR	25.5	25.2	30bps	25.4	10bps
Tier I	24.6	24.3	30bps	24.5	10bps
Tier II	0.9	0.9	0bps	0.9	0bps

Source: Company, Axis Securities Research

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
Net Interest Income	3,599	3,785	4,449	5,255
Non-Interest Income	209	295	330	360
Total Income	3,809	4,080	4,780	5,615
Operating Expenses	1,170	1,350	1,558	1,797
Pre-Provision Profits	2,638	2,730	3,222	3,817
Provisions	1,930	1,564	1,019	1,223
PBT	709	1,166	2,203	2,594
Tax	177	294	555	654
Profit After Tax	531	872	1,648	1,941

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
Equity Share Capital	160	160	160	160
Reserves & Surplus	6,796	7,668	9,316	11,257
Net Worth	6,956	7,828	9,476	11,417
Borrowings	20,446	24,890	28,879	33,723
Other Liabilities	401	478	561	660
Total Liabilities	27,802	33,197	38,916	45,799
Cash & Bank balances	1,443	1,823	1,942	2,285
Investments	893	1,000	1,172	1,379
Goodwill	376	376	376	376
Loans	24,274	28,154	33,325	39,348
Fixed Assets & Others	816	1,845	2,102	2,411
Total Assets	27,802	33,197	38,916	45,799

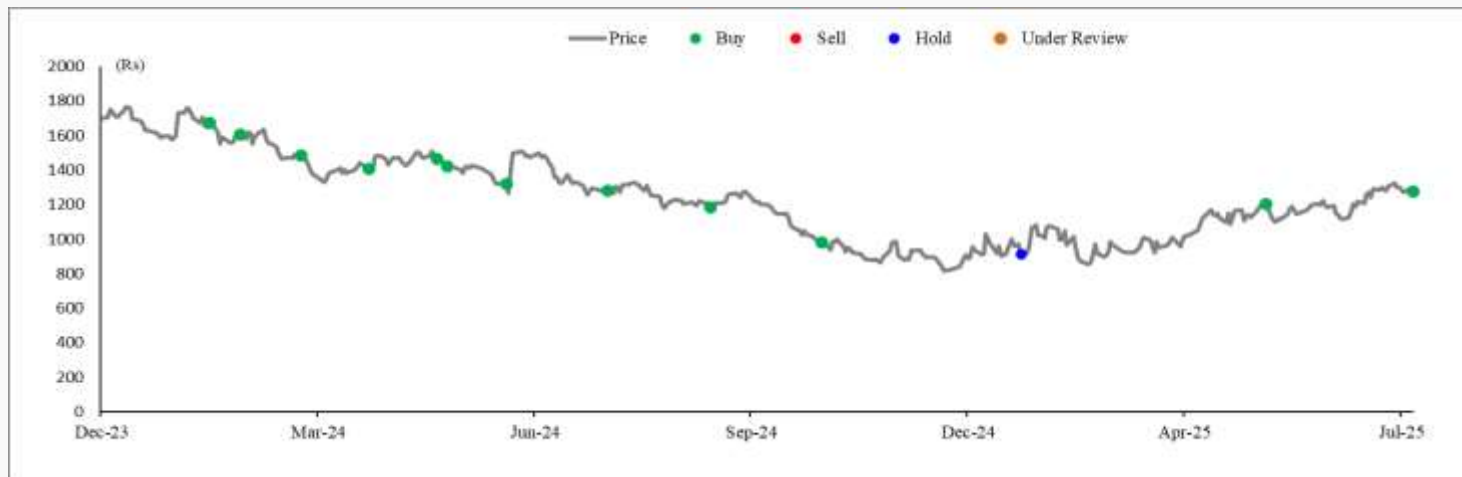
Source: Company, Axis Securities Research

Ratio Analysis
(%)

Y/E March	FY25	FY26E	FY27E	FY28E
Asset Quality				
GNPA Ratio (%)	4.8	4.2	3.1	2.4
NNPA Ratio (%)	1.7	1.5	1.1	0.9
PCR (%)	65.8	66.0	66.0	66.0
Credit Costs (%)	7.8	6.0	3.3	3.4
Profitability & Efficiency Ratios				
Net Interest Margin (%) – (on. Avg on-book AUMs)	12.9	12.8	12.9	12.9
RoA	1.9	2.9	4.6	4.6
RoE	7.8	11.8	19.0	18.6
Cost to Assets	4.1	4.4	4.3	4.2
Cost to Income	30.7	33.1	32.6	32.0
CRAR (%)	25.4	25.0	23.6	23.3
Tier I (%)	24.5	24.2	22.9	22.7
Balance Sheet Structure Ratios (%)				
GLP Growth (%)	-2.9	16.1	18.4	18.1
Borrowing Growth (%)	-6.4	21.7	16.0	16.8
Equity/Assets (%)	25.0	23.6	24.3	24.9
Equity/Loans (%)	28.7	27.8	28.4	29.0
Valuation				
EPS (INR)	33.3	54.6	103.2	121.5
Change (%)	-63.3	64.1	88.9	17.8
BV per share	435.5	490.1	593.3	714.8
Adj. BV per share	409.2	463.1	569.9	693.7
Price-Earnings (x)	38.5	23.4	12.4	10.5
Price-BV (x)	2.9	2.6	2.2	1.8
Price-ABV (x)	3.1	2.8	2.2	1.8
DuPont Analysis – RoE Tree (%)				
NII	12.7	12.4	12.4	12.4
Non-Interest Income	0.7	0.9	0.9	0.8
Opex	4.1	4.4	4.3	4.2
Provisions	6.8	5.1	2.8	2.9
Tax	0.6	1.0	1.5	1.5
RoA	1.9	2.9	4.6	4.6
Leverage	4.2	4.1	4.2	4.1
RoE	7.8	11.8	19.0	18.6

Source: Company, Axis Securities Research

CreditAccess Grameen Price Chart and Recommendation History



Date	Reco	TP	Research
01-Jan-24	BUY	1,935	Top Picks
20-Jan-24	BUY	1,970	Result Update
01-Feb-24	BUY	1,970	Top Picks
01-Mar-24	BUY	1,970	Top Picks
01-Apr-24	BUY	1,970	Top Picks
01-May-24	BUY	1,970	Top Picks
07-May-24	BUY	1,900	Result Update
01-Jun-24	BUY	1,900	Top Picks
22-Jul-24	BUY	1,700	Result Update
05-Sep-24	BUY	1,555	Company Update
28-Oct-24	BUY	1,100	Result Update
27-Jan-25	HOLD	975	Result Update
19-May-25	BUY	1,350	Result Update
23-Jul-25	BUY	1,485	Result Update

Source: Axis Securities Research

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Ratings	Expected absolute returns over 12 – 18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.