

CreditAccess Grameen

Estimate change	↔
TP change	↑
Rating change	↔

CMP: INR1,675 TP: INR1,985 (+18%) Buy

Earnings in line; higher credit costs offset by lower opex

NIM stable QoQ, but asset quality deteriorates due to TN floods

- CreditAccess Grameen (CREDAG) delivered a healthy operational performance in 3QFY24, with ~64% YoY growth in PAT to ~INR3.5b. NII jumped 49% YoY to ~INR8b, with a stable NIM (reported) of ~13.1%.
- PPop grew 59% YoY to ~INR6b, with scale benefits and positive operating leverage resulting in a cost-income ratio (CIR) of ~30% (PY: ~36%). Even with ~50bp reduction in lending rates from Dec'23 onwards, management maintained its NIM guidance of 12.7-12.8% and CIR of 31-32%. We model NIM (calc.) and CIR of ~14.1% and ~31%, respectively, in FY25E.
- Implementation of the Core Banking Solution (CBS) impacted hurt disbursements and customer acquisition in 3QFY24 resulting in customer acquisitions of ~270K (PQ: ~330K). Disbursements were affected in Nov'23 but exhibited a robust recovery in Dec'23.
- GNPA/NNPA deteriorated ~20bp/5bp QoQ to ~0.97%/~0.3% due to floods in Tamil Nadu and higher steady-state PAR from non-Karnataka states. This also led to annualized credit costs rising ~45bp QoQ to 2.3% (PQ: 1.8% and PY: 2.2%).
- We estimate a CAGR of 24%/37% in AUM/PAT over FY23-FY26, leading to an RoA/RoE of ~5.4%/23% in FY26. Despite cyclical tailwinds, the upcoming general election this year is a near-term risk for the sector. We strongly believe that the magnitude and frequency of loan waivers (if any) will be much lower than in the past.
- While the current valuation of 2.5x Mar'26E P/BV is not inexpensive, CREDAG will continue to deliver robust return ratios, aided by a strong underlying business model. **We reiterate our BUY rating with a revised TP of INR1,985 (based on a target multiple of 3.0x Mar'26E P/BV).**

Bloomberg	CREGAG IN
Equity Shares (m)	159
M.Cap.(INRb)/(USDb)	266.7 / 3.2
52-Week Range (INR)	1796 / 834
1, 6, 12 Rel. Per (%)	-1/19/64
12M Avg Val (INR M)	461

Financials & Valuations (INR b)

Y/E March	FY24E	FY25E	FY26E
NII	31.2	38.4	46.4
Total Income	34.3	41.8	50.2
PPoP	23.8	28.9	34.7
PAT	14.8	17.9	21.4
EPS (INR)	93	113	135
EPS Gr. (%)	79	21	20
BV (INR)	415	527	662

Ratios (%)

NIM	14.4	14.1	13.9
C/I ratio	30.5	30.8	30.9
Credit cost	1.8	1.8	1.8
RoA	5.9	5.6	5.4
RoE	25.3	23.9	22.6

Valuations

P/E (x)	18.1	14.9	12.5
P/BV (x)	4.1	3.2	2.5

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

Please refer our thematic report on MFI:

Unlocking growth; empowering lives!



Highlights from the management commentary

- Management guided that the CoB has peaked out and will remain stable in the near term.
- The company reiterated its FY24 AUM growth guidance of 25%. It does not expect to raise equity capital for 2-3 years and will go for a capital raise when the CRAR is below 20%.

Valuation and view

- CREDAG is primed to dominate the segment by: a) providing the lowest-cost organized financing, b) improving operational efficiency through continuous technology enhancement, and c) integrating risk management in every process to drive superior asset quality and lower credit costs.
- CREDAG's robust execution has been vindicated by its resilience across various credit cycles and external disturbances. With a strong capital position (Tier-1 of ~24%), the company can very well navigate any potential disruptions in the future and also capitalize on the growth opportunity over the medium term. **Reiterate our BUY rating on the stock with a revised TP of INR1,985 (based on 3.0x Mar'26 P/BV).**

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

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

CREDAG: Quarterly Performance

(INR m)

Y/E March	FY23				FY24				FY23	FY24E	3QFY24E	v/s Est.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Interest Income	7,363	7,713	8,548	9,648	11,052	11,874	12,444	13,168	33,271	48,537	12,510	-1
Interest Expenses	2,798	2,732	3,142	3,456	3,849	4,239	4,415	4,849	12,129	17,352	4,641	-5
Net Interest Income	4,565	4,981	5,406	6,192	7,203	7,635	8,029	8,319	21,143	31,185	7,869	2
YoY Growth (%)	35.1	35.1	31.2	34.2	57.8	53.3	48.5	34.4	33.5	47.5	45.6	
Other Income	233	434	540	1,015	656	602	509	1,322	2,237	3,088	499	2
Total Income	4,798	5,415	5,946	7,206	7,858	8,237	8,537	9,641	23,379	34,274	8,368	2
YoY Growth (%)	30.4	38.9	32.0	29.3	63.8	52.1	43.6	33.8	32.4	46.6	40.7	
Operating Expenses	1,909	2,067	2,160	2,177	2,420	2,611	2,520	2,916	8,315	10,464	2,733	-8
Operating Profit	2,889	3,348	3,785	5,029	5,438	5,626	6,018	6,725	15,064	23,810	5,634	7
YoY Growth (%)	33.5	53	38	36	88	68	59	34	40	58	49	
Provisions & Loan Losses	1,009	1,054	894	1,053	764	959	1,262	954	4,010	3,939	963	31
Profit before Tax	1,880	2,294	2,891	3,976	4,674	4,668	4,756	5,771	11,054	19,871	4,671	2
Tax Provisions	493	529	733	1,010	1,189	1,197	1,222	1,458	2,794	5,067	1,191	3
Net Profit	1,387	1,766	2,158	2,966	3,485	3,470	3,533	4,312	8,261	14,804	3,480	2
YoY Growth (%)	583.6	196.5	84.5	85.3	151.3	96.6	63.7	45.4	131.5	79.2	61.2	
AUM Growth (%)	23.3	24.0	21.9	26.7	39.7	36.0	31.5	26.2	29.0	27.7	32.6	
NIM (%)	11.3	12.4	12.6	12.8	13.4	13.8	14.0	13.3	12.5	14.4	13.7	
Cost to Income Ratio (%)	39.8	38.2	36.3	30.2	30.8	31.7	29.5	30.2	35.6	30.5	32.7	
Tax Rate (%)	26.2	23.0	25.3	25.4	25.4	25.7	25.7	25.3	25.3	25.5	25.5	
Key Parameters (%)												
Yield on loans	18.4	19.1	19.6	19.7	20.7	21.1	21.0					
Cost of funds	9.1	9.2	9.6	9.5	9.6	9.8	9.8					
Spread	9.3	9.9	10.0	10.2	11.1	11.3	11.2					
NIM	11.1	12.0	11.9	12.2	13.0	13.1	13.1					
Credit cost	2.5	2.6	2.1	2.2	1.4	1.7	2.2					
Cost to Income Ratio (%)	39.8	38.2	36.3	30.2	30.8	31.7	29.5					
Tax Rate (%)	26.2	23.0	25.3	25.4	25.4	25.7	25.7					
Performance ratios (%)												
GLP/Branch (INR m)	93	98	103	118	119	120	123					
GLP/Loan Officer (INR m)	14.8	15.3	15.0	18.3	18.1	16.9	17.9					
Borrowers/Branch	2,195	2,255	2,281	2,387	2,422	2,452	2,478					
Borrowers/Loan Officer	349	351	333	371	367	345	360					
Balance Sheet Parameters												
Gross loan portfolio (INR B)	156.2	165.4	177.9	210.3	218.1	224.9	233.8	265.4	210.3	265.4		
Change YoY (%)	23.3	24.0	21.9	26.7	39.7	36.0	31.5	26.2	26.7	26.2		
Disbursements (INR B)	24.2	43.8	48.5	71.7	47.7	49.7	53.4	84.3	188.1	235.1		
Change YoY (%)	126.9	12.5	2.7	23.8	97.5	13.5	10.3	17.6	21.6	25.0		
Borrowings (INR B)	118.8	123.1	135.7	164.1	168.2	177.6	190.7	211.7				
Change YoY (%)	21.5	22.4	18.5	27.0	41.6	44.3	40.5	29.0				
Borrowings/Loans (%)	84.0	81.0	82.8	86.2	84.9	85.0	86.3	88.2				
Debt/Equity (x)	2.9	2.8	3.0	3.2	3.1	3.1	3.1	3.2				
Asset Quality (%)												
GS 3 (INR M)	4,584	3,400	2,887	2,368	1,817	1,657	2,197					
G3 %	3.1	2.2	1.7	1.2	0.9	0.8	1.0					
NS 3 (INR M)	1,667	1,187	985	812	552	509	650					
NS3 %	1.2	0.8	0.6	0.4	0.3	0.2	0.3					
PCR (%)	63.6	65.1	65.9	65.7	69.6	69.3	70.4					
ECL (%)	3.0	2.3	1.9	0.0	1.6	1.6	1.8					
Return Ratios - YTD (%)												
ROA (Rep)	3.1	4.0	4.6	5.5	5.8	5.6	5.5					
ROE (Rep)	13.4	16.1	18.8	24.0	26.4	24.7	23.6					

E: MOFSL Estimates

Disbursements hit by CBS upgrade, but strong recovery from Dec'23

- Disbursements in 3QFY24 grew 10% YoY to INR53.4b (PY: INR48b; PQ: ~INR49b). Disbursements in Nov'24 were temporarily affected for 2-3 weeks because of the CBS upgrade but recovered strongly in Dec'23.
- GLP grew 32% YoY and ~4% QoQ to ~INR234b. We model ~26% YoY growth in GLP to ~INR265b by Mar'24.
- CREDAG remains focused on new customer acquisitions, with ~19% YoY growth in the borrower base to 4.7m (PY: 3.9m). In 3QFY24, the company added ~17 new branches, out of which 13 were added outside its top three states. The number of total loan officers decreased by 280 to ~13K, resulting in the borrower per loan officer increasing to 360 (PQ: 345).

Spreads moderate ~10bp QoQ, driven by a decline in lending yields

- Reported blended yields declined ~10bp QoQ to 21%, while CoF remained stable QoQ at 9.8%, leading to ~10bp decline in spreads to ~11.2%.
- Yield decline was attributable to CREDAG having lowered its lending rates by ~50bp in both MFI and retail finance in Dec'23 and Jan'24. CREDAG has a Board-approved pricing policy, and the lending rate reduction was driven by consistent improvement in operating efficiency and the anticipation of a stable cost of borrowing from 4QFY24 onwards (following its peak in 2Q/3QFY24).
- Despite the ~50bp reduction in lending rates, the company does not foresee any significant impact on NIM or return ratios due to: a) the gradual impact of revised pricing on portfolio yield over the next 18-20 months, and b) robust control over borrowing costs via a diversified liability profile and ongoing access to PSL-linked funds. We model NIM (calc.) of 14.4%/14.1%/13.9% in FY24/FY25/ FY26.

Asset quality deteriorates due to seasoning of non-KAR portfolio and TN floods

- GNPA/NNPA deteriorated ~20bp/5bp QoQ to ~0.97%/~0.3% due to floods in Tamil Nadu and higher steady-state PAR from non-Karnataka states. PCR rose ~1pp QoQ to ~70.4%.
- PAR 30+ rose ~30bp QoQ to 1.2% and PAR 0+ rose ~50bp QoQ to 1.8%. TN floods resulted in PAR 0 increasing by 0.2%. PAR 0 in flood-impacted TN continued to decline and the management shared that it expects PAR to revert to normalcy from 4Q onwards.
- Gross collection efficiency (excluding arrears) stood at 98.3%.
- Fresh PAR accretion of 1.2% (annualized: 1.6%) during 9MFY23 is within the range guided by the management.



Highlights from the management commentary

Business update and financial performance

- Successfully completed the core banking system upgrade; business momentum was temporarily affected for 2-3 weeks because of the CBS upgrade.
- Got a credit rating upgrade to AA- from CRISIL in Nov'23 while Ind-Ra and ICRA already had an AA- rating on CREDAG.
- Customer base grew 19% YoY while AUM jumped ~31% YoY
- Opex-to-AUM stood at 4.4%
- CE (excl. arrears) stood at 98.3% (PQ: 98.7%). PAR 90+ stood at 0.75% (PQ: 0.6%) while PAR 30+ stood at 1.2% (PQ: 0.9%)
- RoA/RoE stood at 5.5%/23.6% (PQ: 5.6%/24.7%) in 3QFY24.

Guidance

- Guided that the CoB has peaked out and will remain stable in the near-term
- Opex-to-AUM was in the range of 4.5-4.6% and cost-to-income ratio was at 31-32%
- The company reiterated its FY24 AUM growth guidance of 25%

Equity Raise

- It does not expect to raise equity capital for 2-3 years and will raise equity capital when CRAR is below 20%

Asset Quality

- Fresh PAR accretion of 1.2% (1.6% annualized) during Mar-23 to Dec-23 is within the guided range
- Sep-23 to Dec-23 PAR increase is primarily driven by a) business as usual PAR accretion due to seasonality, b) higher steady-state PAR outside Karnataka (Karnataka PAR 0+ is 1.0%) and c) TN flood impact
- PAR in flood-impacted TN continues to decline
- Expects PAR to revert to normalcy from 4Q onwards and remain within the guided range
- Slightly higher PAR in parts of Northern Gujarat, and Rajasthan was a bit of an aberration.

NIM

- CRED reduced its lending rates by ~50bp in both MFI and Retail Finance.
- Drivers for rate reduction were: a) consistent improvement in operating efficiency, b) cost of borrowing having peaked out in 2Q/3QFY24 and is anticipated to remain stable from 4QFY24 onwards
- Does not anticipate any change in its NIM and return ratios guidance because of the ~50bp reduction in the lending rates since a) full impact of the revised pricing on the portfolio yield will be gradual over the coming 18-20 months, and b) strong control on the cost of borrowing on the back of a diversified liability profile and continued access to PSL-linked funds

Branch additions

- Most of the branch additions have been outside the Top-3 states. Within its Top-3 states, the branch expansions have predominantly come from splitting the branches.

Liabilities

- Marginal CoB is broadly stable and the bank borrowings have declined from 53% to 50%. Bank borrowings will continue to decline towards ~45% in the near-to-medium term. However, bank borrowings will increase in 4Q since it is planning to drawdown all the undrawn bank sanctions.
- The marginal CoB from banks was 9.4-9.5% and from DFI was 9.3-9.5%

Retail Finance

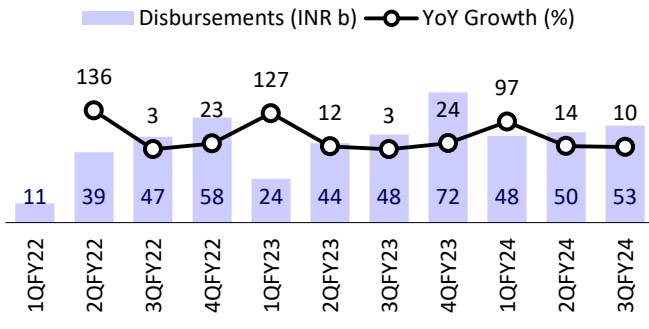
- Total Retail Finance was ~2%, o/w ~80% were unsecured loans and ~20% were secured loans.
- LAP ATS was ~INR550K and as the proportion of LAP increases, the ATS in retail finance will increase.
- Medium-term guidance of ~12-15% of the GLP mix from Retail Finance and ~6-7% by FY26/FY27.
- Attrition of customers who do not want a new loan or customers which CREDAG does not want to retain is 8-10% and 4-5% because the company did not have a product to retain them.
- Retail products have been launched to stem customer attrition who move out because of their need for a higher-ticket loan.

Others

- Customer acquisition of ~330K in 2QFY24 and ~270K in 3QFY24. 3Q customer acquisition impacted by implementation of CBS.
- It will take 2-3 quarters for the benefits of the CBS upgrade to start showing up.
- CREDAG has a Board-approved pricing policy in place which is reviewed every quarter. Pricing depends on credit costs, funding costs and capital costs.
- Customers unique to CREADAG stood at 33-34%. If it attracts customers from other MFIs, the unique customers will come down. But over a course of time, many customers become unique to CREDAG.

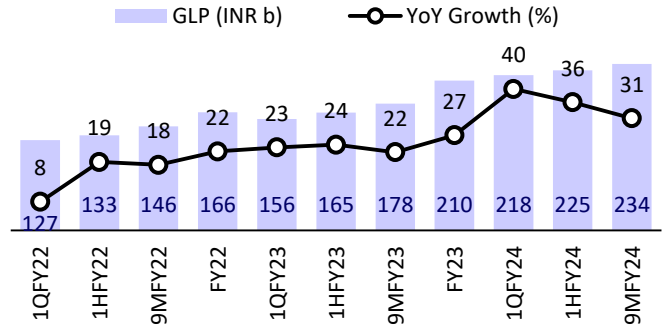
Key exhibits

Exhibit 1: Disbursements grew 10% YoY...



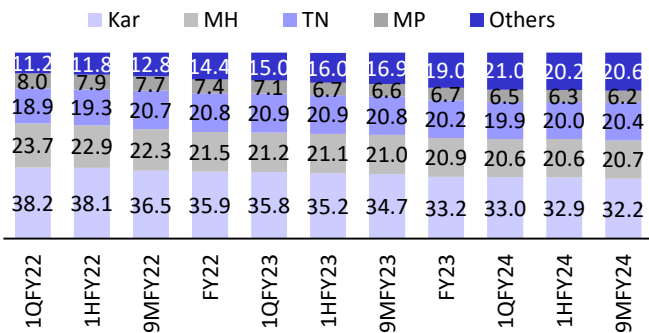
Sources: MOFSL, Company

Exhibit 2: ...driving GLP growth of 31% YoY



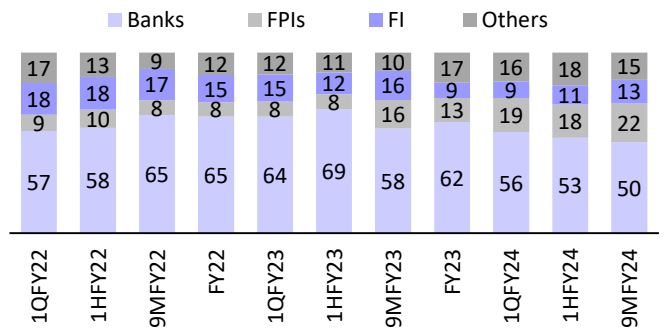
Sources: MOFSL, Company

Exhibit 3: Concentration of the top three states in AUM remained stable



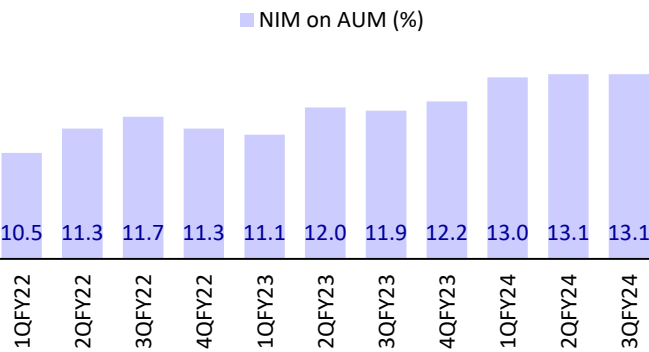
Sources: MOFSL, Company

Exhibit 4: Proportion of foreign borrowings has risen, while it declined for bank term loans



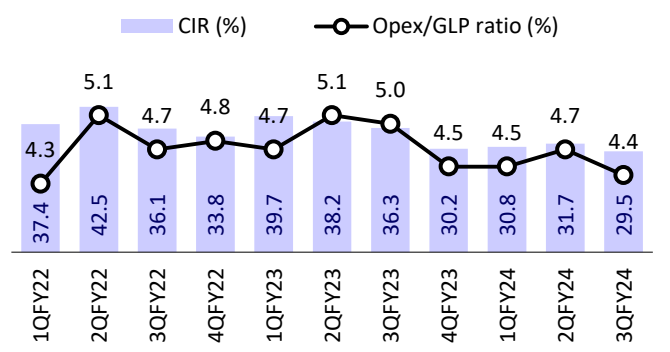
Sources: MOFSL, Company

Exhibit 5: Reported NIM stable QoQ (%)



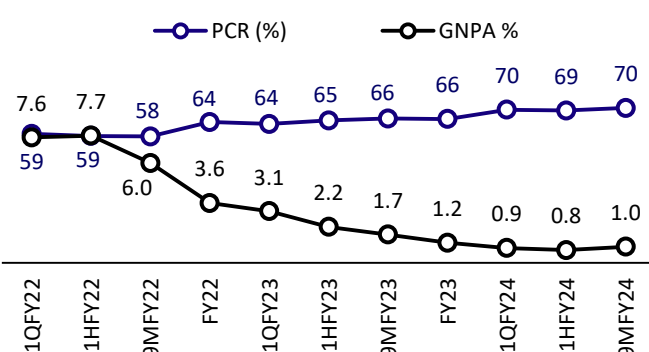
Sources: MOFSL, Company

Exhibit 6: C/I ratio declined sequentially to ~29.5%



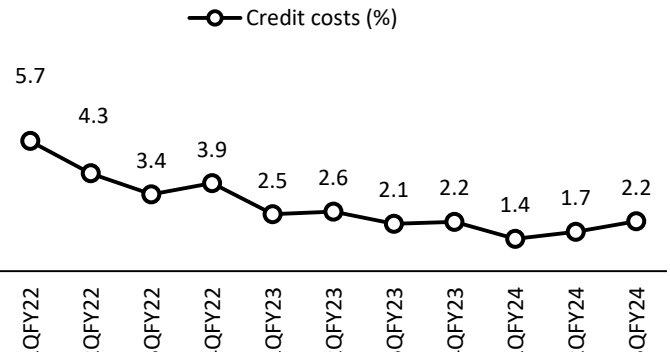
Sources: MOFSL, Company

Exhibit 7: GNPA stood at ~1% as of Dec'23



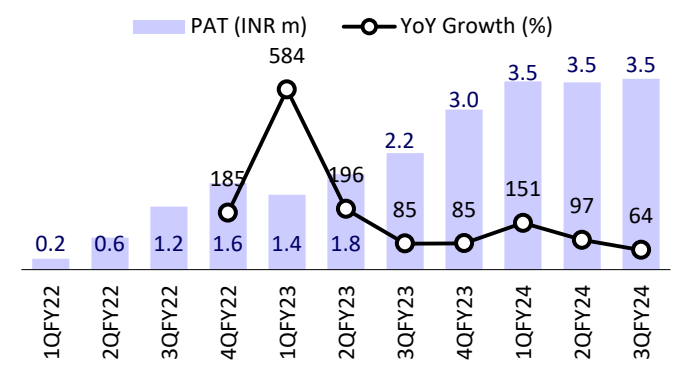
Sources: MOFSL, Company

Exhibit 8: Credit cost increased sequentially by ~50bp



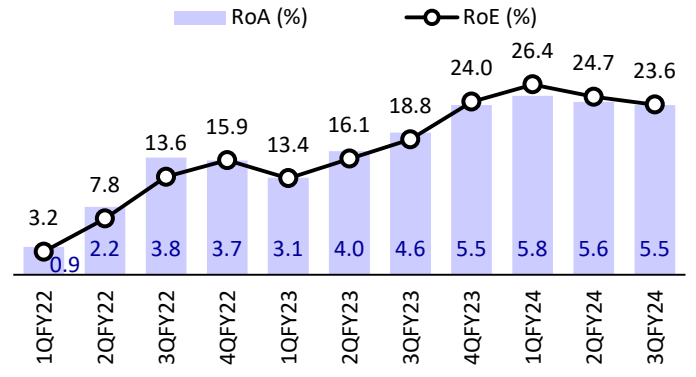
Sources: MOFSL, Company

Exhibit 9: PAT grew ~64% YoY in 3QFY24



Sources: MOFSL, Company

Exhibit 10: RoA/RoE stood at 5.5%/23.6% in 3QFY24



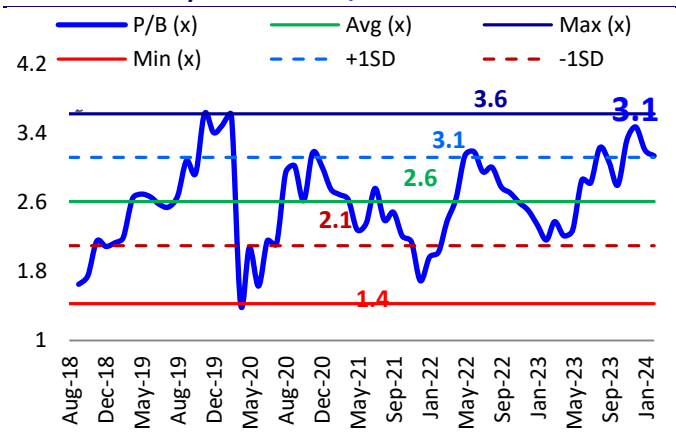
Sources: MOFSL, Company

Exhibit 11: Estimates largely unchanged

INR B	Old Est.			New Est.			% change		
	FY24	FY25	FY26	FY24	FY25	FY26	FY24	FY25	FY26
NII	31	38.8	46.8	31.2	38.4	46.4	0.6	-0.9	-1
Other Income	3.1	3.4	3.9	3.1	3.4	3.8	-0.2	-0.5	-0.7
Total Income	34.1	42.2	50.7	34.3	41.8	50.2	0.6	-0.9	-1
Operating Expenses	10.6	13.1	15.8	10.5	12.9	15.5	-1.7	-1.7	-1.7
Operating Profits	23.4	29.1	34.9	23.8	28.9	34.7	1.6	-0.5	-0.6
Provisions	3.7	4.9	6	3.9	4.9	6	7.3	-0.2	-0.2
PBT	19.8	24.2	28.9	19.9	24	28.7	0.5	-0.6	-0.7
Tax	5	6.2	7.4	5.1	6.1	7.3	0.5	-0.6	-0.7
PAT	14.7	18	21.6	14.8	17.9	21.4	0.5	-0.6	-0.7
AUM	265	330	404	265	330	404			
Borrowings	212	266	322	212	266	322			
RoA	5.9	5.6	5.5	5.9	5.6	5.4			
RoE	25.2	24.1	22.8	25.3	23.9	22.6			

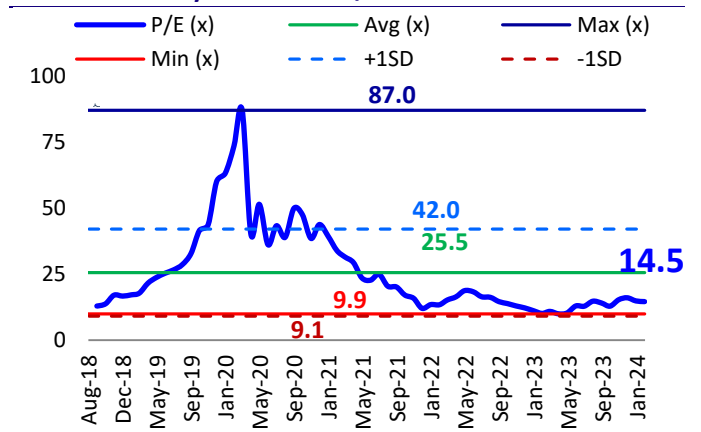
Sources: MOFSL, Company

Exhibit 12: One-year forward P/B



Source: MOFSL, Company

Exhibit 13: One-year forward P/E



Source: MOFSL, Company

Financials and valuations

Income Statement					(INR m)
Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	25,673	33,271	48,537	60,348	73,080
Interest Expended	9,841	12,129	17,352	21,953	26,719
Net Interest Income	15,832	21,143	31,185	38,396	46,362
Change (%)	16.3	33.5	47.5	23.1	20.7
Other Income	1,825	2,237	3,088	3,393	3,825
Net Income	17,657	23,379	34,274	41,788	50,187
Change (%)	14.9	32.4	46.6	21.9	20.1
Operating Expenses	6,885	8,315	10,464	12,863	15,489
Operating Income	10,772	15,064	23,810	28,926	34,698
Change (%)	13.2	39.8	58.1	21.5	20.0
Provisions and W/Offs	5,968	4,010	3,939	4,904	5,982
PBT	4,805	11,054	19,871	24,022	28,716
Tax	1,237	2,794	5,067	6,126	7,323
Tax Rate (%)	25.7	25.3	25.5	25.5	25.5
PAT	3,568	8,261	14,804	17,896	21,393
Change (%)	171.7	131.5	79.2	20.9	19.5
Proposed Dividend (Incl Tax)	0	0	0	0	0

Balance Sheet					(INR m)
Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	1,559	1,589	1,589	1,589	1,589
Reserves & Surplus	38,218	49,481	64,284	82,181	1,03,574
Net Worth	39,777	51,070	65,874	83,770	1,05,163
Borrowings	1,29,207	1,63,123	2,11,650	2,65,583	3,21,641
Change (%)	18.1	26.2	29.7	25.5	21.1
Other liabilities	4,964	4,389	5,230	6,235	7,438
Total Liabilities	1,73,948	2,18,581	2,82,753	3,55,588	4,34,243
Cash and bank balances	17,614	14,364	23,322	34,599	45,582
Loans and Advances	1,47,653	1,90,433	2,43,276	3,01,798	3,65,501
Change (%)	26.0	29.0	27.7	24.1	21.1
Fixed Assets	5,739	968	1,162	1,394	1,673
Investments	5	4,545	5,909	7,681	9,986
Intangible Assets	4,673	5,061	5,061	5,061	5,061
Other Assets	2,937	3,208	4,023	5,054	6,439
Total Assets	1,73,942	2,18,581	2,82,753	3,55,588	4,34,243

E: MOFSL Estimates

Financials and valuations

Ratios							(%)
AUM and Disbursements (INR m)		FY22	FY23	FY24E	FY25E	FY26E	
YoY growth (%)	Source:	1,65,990	2,10,320	2,65,399	3,29,604	4,03,557	
		22.2	26.7	26.2	24.2	22.4	
Disbursements		1,54,670	1,88,090	2,35,113	2,84,486	3,44,228	
YoY growth (%)		40.5	21.6	25.0	21.0	21.0	
Ratios							(%)
Y/E March		FY22	FY23	FY24E	FY25E	FY26E	
Spreads Analysis (%)							
Yield on Portfolio		19.2	19.4	22.0	21.8	21.6	
Cost of Borrowings		8.2	8.3	9.3	9.2	9.1	
Interest Spread		11.0	11.1	12.8	12.6	12.5	
Net Interest Margin		12.0	12.5	14.4	14.1	13.9	
Profitability Ratios (%)							
RoE		9.3	18.2	25.3	23.9	22.6	
RoA (on balance sheet)		2.2	4.2	5.9	5.6	5.4	
Debt: Equity (x)		3.2	3.2	3.2	3.2	3.1	
Leverage (x)		4.2	4.3	4.3	4.2	4.1	
Efficiency Ratios (%)							
Int. Expended/Int. Earned		38.3	36.5	35.7	36.4	36.6	
Op. Exps./Net Income		39.0	35.6	30.5	30.8	30.9	
Empl. Cost/Op. Exps.		63.6	62.0	62.5	62.1	61.8	
Other Income/Net Income		10.3	9.6	9.0	8.1	7.6	
Asset quality							
GNPA		5,587	2,368	1,833	1,849	2,232	
NNPA		1,974	812	458	407	446	
GNPA %		3.7	1.2	0.7	0.6	0.6	
NNPA %		1.3	0.4	0.2	0.1	0.1	
PCR %		64.7	65.7	75.0	78.0	80.0	
Valuation		FY22	FY23	FY24E	FY25E	FY26E	
Book Value (INR)		255	321	415	527	662	
BV Growth (%)		7.5	25.9	29.0	27.2	25.5	
Price-BV (x)		6.6	5.2	4.1	3.2	2.5	
EPS (INR)		22.9	52.0	93.2	112.6	134.6	
EPS Growth (%)		171.2	127.1	79.2	20.9	19.5	
Price-Earnings (x)		73.5	32.4	18.1	14.9	12.5	
Dividend per share		0.0	0.0	0.0	0.0	0.0	
Dividend Yield (%)		0.0	0.0	0.0	0.0	0.0	

E: MOFSL Estimates

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NOTES

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BUY	>=15%
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NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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