

BUY CreditAccess Grameen

Your success is our success

Strong RoA delivery; retain BUYBFSI - Banks ▶ Result Update ▶ **October 22, 2023****TARGET PRICE (Rs): 1,960**

CREDAG maintained its strong earnings performance with in-line PAT at Rs3.5bn, up 98% YoY, and RoA of 5.6% on the back of strong growth (36% YoY) and margin expansion (+110bps YoY/10bps QoQ). Going ahead, CREDAG expects growth to remain strong led by expansion in customer-count and ticket-size. From the medium-term perspective, Company expects GLP CAGR at 24-25%, NIM moderation to 12.6-12.7% from the current ~13%, and steady increase in LLP including counter-cyclical contingent provision build-up.

Factoring-in the better growth trajectory and margin delivery, partly offset by higher provisions to build buffers, we raise our earnings for FY24-26E by 7-15%. We retain BUY on the stock, with revised TP of Rs1,960/share (from Rs1,800), rolling forward on 3.4x Sep-25E ABV vs 3.5x Jun-25 ABV, given strong delivery on RoA/RoE at 5-6%/22-25% over FY24-26E, Management depth and better cross-cycle return metrics/asset-quality experience. CREDAG remains our preferred pick in the NBFC-MFI sector.

CreditAccess Grameen: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	3,531	8,260	14,886	17,825	20,392
Loan growth (%)	22.2	26.7	30.0	25.0	23.0
NII growth (%)	6.7	33.5	55.8	23.8	20.7
NIM (%)	10.4	11.4	13.5	12.9	12.6
PPOP growth (%)	13.2	39.8	59.7	22.2	19.7
Adj. EPS (Rs)	22.7	52.5	93.7	112.2	128.3
Adj. EPS growth (%)	158.5	131.5	78.5	19.7	14.4
Adj. BV (INR)	259.2	321.1	413.1	523.7	649.3
Adj. BVPS growth (%)	3.2	21.3	27.9	27.0	24.3
RoA (%)	2.2	4.2	5.8	5.4	5.0
RoE (%)	8.8	17.8	25.4	23.8	21.7
P/E (x)	61.3	26.5	14.8	12.4	10.8
P/ABV (x)	5.5	4.4	3.4	2.7	2.2

Source: Company, Emkay Research

Strong GLP growth, portfolio diversification and continued margin expansion

CREDAG continues to deliver impressive growth — 36% YoY/3% QoQ — fueled by 21% YoY surge in customer acquisition and effective GLP management, even during a softer quarter. Strategic focus on higher-yielding fresh disbursements (up 22%) expanded the portfolio yield to 21.1%. The company has managed its borrowing costs well — up only by 20bps QoQ to 9.8% — which led to NIM expansion by 10bps QoQ/110bps YoY to 13.1%. Company expects 2H to be seasonally strong and thus support GLP growth. It has entered the states of AP/Telangana, from where it anticipates strong disbursements in due course. Given its strategic focus on non-MFI JLG loans, Company targets this segment to form 15% of the total portfolio, including gold loans, AFH, 2W and LAP. From the medium-term perspective, the company expects GLP CAGR of 24-25% and NIM moderation to 12.6-12.7% from the current ~13%, as costs catch up.

Asset quality improvement endures, but builds counter cyclical provision buffer

CREDAG continues to witness improvement in GNPA ratio to 0.8% (down by 12bps QoQ) and in NNPA to 0.24% (down by 3bps QoQ). PCR on the 90+ DPD portfolio stands at 69% and at 54% for Stage-2. Collection efficiency remains high at 99%, with no visible signs of stress yet. CREDAG has reserved Rs78mn to address the Rs720mn legacy MMFL book, which is now only 0.3% of the total GLP. The PAR book remains healthy — PAR 0 DPD at 1.3% (vs. 1.2% in Q1), PAR 30 at 0.9% (vs. 1.0% in Q1), PAR 60 at 0.8% (vs. 0.7% in Q1), and PAR 90 at 0.6% (vs. 0.7% in Q1). Going forward, the company aims to build counter-cyclical provision buffer and thus guides for elevated LLP.

We reiterate BUY, with revised TP of Rs1,960/share

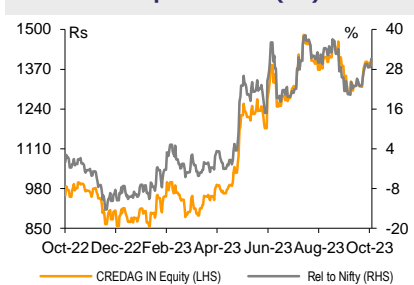
Factoring-in the better growth trajectory and margin delivery, partly offset by higher provisions to build buffers, we raise FY24-26E earnings 7-15%. We retain BUY on the stock with revised TP of Rs1,960/share (from Rs1,800), rolling forward on 3.4x Sep-25E ABV vs 3.5x Jun-25E ABV, given strong delivery on RoA/RoE at 5-6%/22-25% over FY24-26E, management depth and better cross-cycle returns/asset-quality experience. CREDAG remains our preferred pick in the NBFC-MFI sector. Key risks: Asset-quality deterioration in MFI (mainly in non-South markets) and unseasoned non-MFI portfolio.

Target Price – 12M	Sep-24
Change in TP (%)	8.9
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	41.0
CMP (20-Oct-23) (Rs)	1,389.9

Stock Data	Ticker
52-week High (Rs)	1,502
52-week Low (Rs)	834
Shares outstanding (mn)	159.1
Market-cap (Rs bn)	221
Market-cap (USD mn)	2,661
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	418.8
ADTV-3M (USD mn)	5.0
Free float (%)	26.0
Nifty-50	19,543
INR/USD	83.1
Shareholding, Sep-23	
Promoters (%)	66.7
FPIs/MFs (%)	11.5/15.8

Price Performance

(%)	1M	3M	12M
Absolute	3.1	5.6	42.9
Rel. to Nifty	5.0	8.0	28.4

1-Year share price trend (Rs)**Anand Dama**

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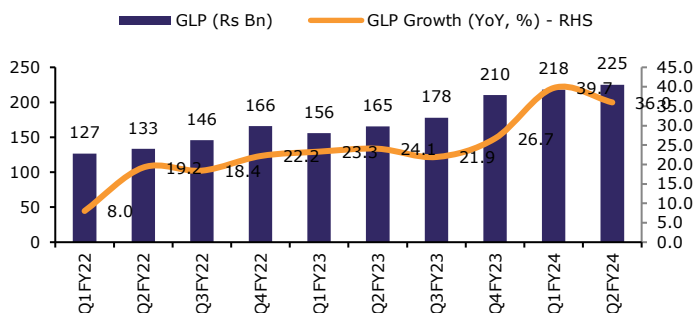
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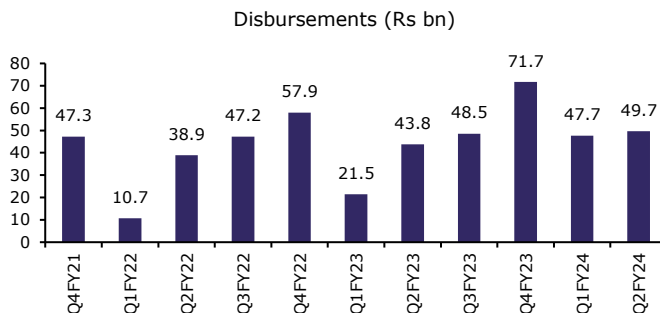
Story in charts

Exhibit 1: GLP shows a steady pace of growth...



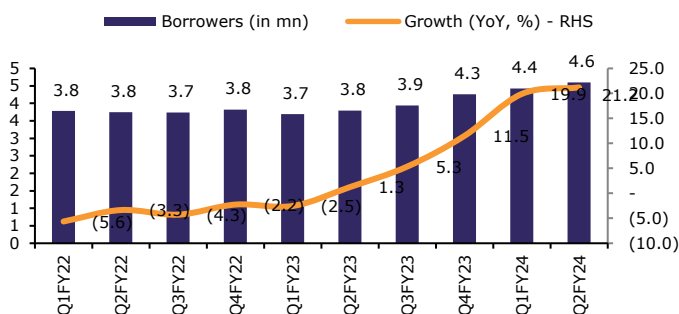
Source: Company, Emkay Research

Exhibit 2: ...and disbursements for H1FY24 are quite healthy vs H1FY23



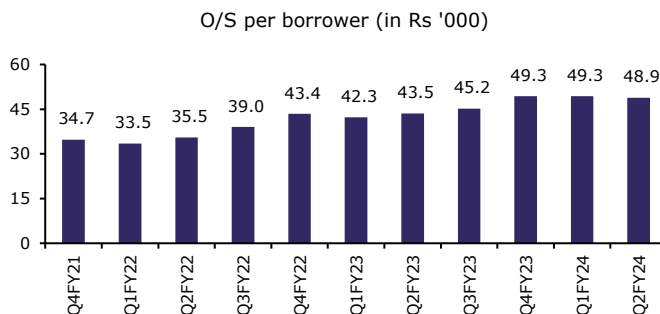
Source: Company, Emkay Research

Exhibit 3: Highest-ever Borrowers growth (21.2% YoY) seen in Q2FY24...



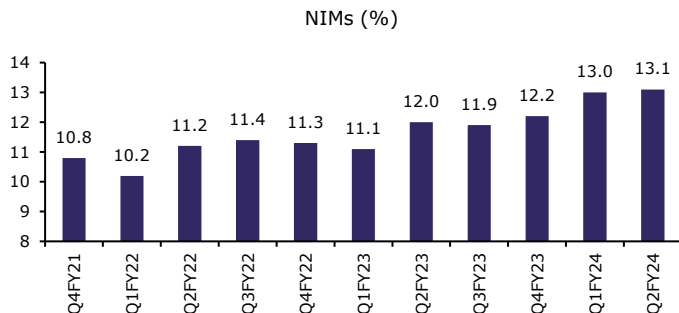
Source: Company, Emkay Research

Exhibit 4: ...leading to fairly stable O/S per borrower



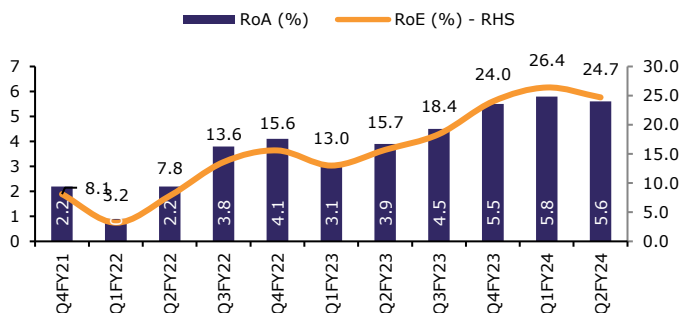
Source: Company, Emkay Research

Exhibit 5: NIMs see further improvement of 10bps; expected to moderate ahead



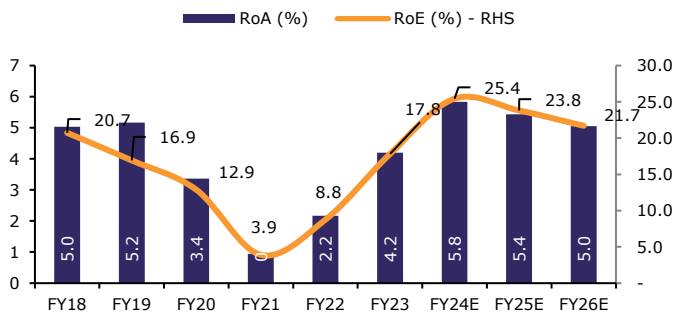
Source: Company, Emkay Research

Exhibit 6: Return ratio takes a slight dip due to relatively high provisioning



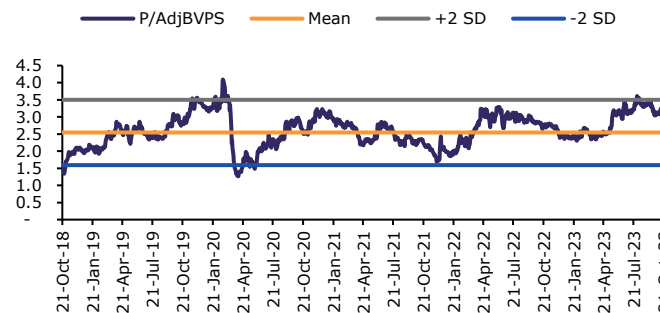
Source: Company, Emkay Research

Exhibit 7: Healthy return ratios expected, factoring-in better growth/margin delivery



Source: Company, Emkay Research

Exhibit 8: The stock trades at 3.4x its one-year forward P/ABV



Source: Company, Emkay Research

Exhibit 9: Actuals vs Estimates

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	8,237	8,156	10,417	1%	-21%	Higher margins led to a beat
PPOP	5,648	5,572	4,956	1%	14%	Higher Net income led to a beat
PAT	3,492	3,510	3,269	-1%	7%	Higher LLP led to a shortfall

Source: Company, Emkay Research

Exhibit 10: Quarterly Summary

(Rs mn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)	FY23A	FY24E	YoY (%)
Interest Earned	7,890	8,816	10,364	11,490	11,961	52	4	33,271	51,390	54
Interest Exp	2,732	3,142	3,456	3,849	4,239	55	10	12,129	18,440	52
Net Interest Income	5,158	5,674	6,908	7,641	7,722	50	1	21,142	32,950	56
Global NIMs (reported)	12.00	11.90	12.20	13.00	13.10	110bps	10bps	11.37	13.46	209bps
Non-interest Income	253	281	298	218	515	103	137	2,236	1,886	-16
Operating Expenses	2,067	2,160	2,177	2,442	2,589	25	6	8,315	10,784	30
Pre Provisioning Profit	3,344	3,795	5,028	5,416	5,648	69	4	15,064	24,051	60
Provision & Contingencies	1,054	894	1,053	764	959	-9	25	4,010	4,150	3
PBT	2,290	2,900	3,975	4,652	4,689	105	1	11,054	19,902	80
Income Tax Expense (Gain)	529	743	1,010	1,189	1,197	126	1	2,794	5,015	80
Net Profit/(Loss)	1,761	2,158	2,965	3,463	3,492	98	1	8,260	14,886	80
Gross NPA (%)	2.17	1.71	1.21	0.89	0.77	-140bps	-12bps	1.23	0.69	-54bps
Net NPA (%)	0.77	0.59	0.42	0.27	0.24	-53bps	-3bps	0.42	0.19	-23bps
Net Advances (Rs in bn)	152	164	190	198	209	37	5	190	248	30

Source: Company, Emkay Research

Exhibit 11: Revision in Estimates

Y/E Mar (Rs mn)	FY24E			FY25E			FY26E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	32,986	34,836	5.6%	39,155	43,135	10.2%	46,511	52,194	12.2%
PPOP	22,121	24,051	8.7%	25,636	29,402	14.7%	30,086	35,194	17.0%
PAT	13,958	14,886	6.7%	15,536	17,825	14.7%	17,542	20,392	16.2%
EPS (Rs)	87.8	93.7	6.7%	97.8	112.2	14.7%	110.4	128.3	16.2%
BV (Rs)	409.2	415.1	1.4%	507.0	527.2	4.0%	617.4	655.5	6.2%

Source: Emkay Research

Exhibit 12: Key Assumptions

	FY23A	FY24E	FY25E	FY26E
Loan Growth (%)	29.0	30.0	24.8	22.7
Borrowing Growth (%)	27.3	49.8	20.0	20.0
NIM (%)	11.4	13.5	12.9	12.6
GNPA (%)	1.2	0.7	0.9	1.3
Credit Cost (%)	2.3	1.8	2.0	2.3

Source: Emkay Research

Exhibit 13: Key Ratios and Trends

	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Loans (Rs mn)	1,17,761	1,33,790	1,47,653	1,41,376	1,51,959	1,64,023	1,90,433	1,98,202	2,08,801
Balance Sheet									
Loans (Rs bn)	118	134	148	141	152	164	190	198	209
-growth (% YoY)	15.5	18.9	26.0	30.6	29.0	22.6	29.0	40.2	37.4
-growth (% QoQ)	8.8	13.6	10.4	-4.3	7.5	7.9	16.1	4.1	5.3
Loan composition (%)									
- IGL	94.6	95.2	96.1	95.7	95.5	95.9	95.5	94.8	93.8
- Family Welfare	0.4	0.4	0.2	0.8	1.1	0.7	0.3	0.7	0.7
- Home Improvement	2.5	2.5	2.5	2.6	2.6	2.7	3.3	3.6	3.9
- Emergency	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
- Retail Finance	2.5	1.8	1.2	0.9	0.7	0.6	0.8	1.0	1.6
Asset Quality									
GNPA (%)	7.7	6.0	3.6	3.1	2.2	1.7	1.2	0.9	0.8
NNPA (%)	3.3	2.6	1.3	1.2	0.8	0.6	0.4	0.3	0.2
PCR (%)	58.6	58.3	64.4	63.6	65.1	65.9	65.7	72.4	71.1
ROE Decomposition (%)									
NII	10.5	11.0	12.5	10.9	12.2	12.7	13.6	13.7	13.2
Other Income	0.6	1.0	0.9	0.4	0.6	0.6	0.6	0.4	0.9
Treasury	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Opex	4.9	4.7	4.5	4.5	4.9	4.8	4.3	4.4	4.4
PPOP	6.2	7.3	8.9	6.8	7.9	8.5	9.9	9.7	9.7
Provisioning Cost	4.0	3.1	3.6	2.4	2.5	2.0	2.1	1.4	1.6
PBT	2.2	4.1	5.2	4.5	5.4	6.5	7.8	8.3	8.0
Tax	0.5	1.0	1.4	1.2	1.3	1.7	2.0	2.1	2.0
ROA	1.7	3.1	3.8	3.3	4.2	4.8	5.9	6.2	6.0
Leverage (x)	3.6	3.8	4.1	4.0	3.7	3.8	4.0	4.1	4.0
ROE	6.2	11.7	15.6	13.2	15.7	18.3	23.2	25.4	24.1

Source: Company, Emkay Research

CreditAccess Grameen: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	25,673	33,271	51,390	64,382	76,291
Interest Expense	9,841	12,129	18,440	23,597	27,068
Net interest income	15,831	21,142	32,950	40,785	49,223
NII growth (%)	6.7	33.5	55.8	23.8	20.7
Other income	1,828	2,236	1,886	2,350	2,971
Total Income	17,659	23,379	34,836	43,135	52,194
Operating expenses	6,884	8,315	10,784	13,733	16,999
PPOP	10,775	15,064	24,051	29,402	35,194
PPOP growth (%)	13.2	39.8	59.7	22.2	19.7
Core PPOP	10,775	15,064	24,051	29,402	35,194
Provisions & contingencies	5,967	4,010	4,150	5,572	7,932
PBT	4,808	11,054	19,902	23,830	27,263
Extraordinary items	0	0	0	0	0
Tax expense	1,277	2,794	5,015	6,005	6,870
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	3,531	8,260	14,886	17,825	20,392
PAT growth (%)	168.7	134.0	80.2	19.7	14.4
Adjusted PAT	3,531	8,260	14,886	17,825	20,392
Diluted EPS (Rs)	23.2	52.3	93.3	111.7	127.8
Diluted EPS growth (%)	160.9	125.1	78.5	19.7	14.4
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0
Effective tax rate (%)	26.6	25.3	25.2	25.2	25.2
Net interest margins (%)	10.4	11.4	13.5	12.9	12.6
Cost-income ratio (%)	39.0	35.6	31.0	31.8	32.6
Shares outstanding (mn)	155.9	158.9	158.9	158.9	158.9

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Asset quality					
Gross NPLs	5,586.5	2,355.5	1,721.1	2,902.9	5,006.7
Net NPLs	1,973.5	799.5	481.9	841.8	1,502.0
GNPA ratio (%)	3.7	1.2	0.7	0.9	1.3
NNPA ratio (%)	1.3	0.4	0.2	0.3	0.4
Provision coverage (%)	64.7	66.1	72.0	71.0	70.0
Gross slippages	6,955.0	3,620.0	4,229.5	5,908.9	8,415.5
Gross slippage ratio (%)	4.6	1.9	1.7	1.9	2.2
LLP ratio (%)	4.4	2.3	1.8	2.0	2.3
NNPA to networth (%)	4.7	1.6	0.7	1.0	1.4
Capital adequacy					
Total CAR (%)	22.8	23.6	23.4	23.5	23.5
Tier-1 (%)	21.8	22.7	22.7	22.9	23.0
CET-1 (%)	1.0	0.9	0.7	0.6	0.5
RWA-to-Total Assets (%)	82.0	82.0	84.0	88.0	92.0
Miscellaneous					
Total income growth (%)	11.5	29.1	50.0	25.3	18.8
Opex growth (%)	17.6	20.8	29.7	27.3	23.8
Core PPOP growth (%)	13.2	39.8	59.7	22.2	19.7
PPOP margin (%)	6.6	7.7	9.4	9.0	8.7
PAT/PPOP (%)	32.8	54.8	61.9	60.6	57.9
LLP-to-Core PPOP (%)	55.4	26.6	17.3	19.0	22.5
Yield on advances (%)	19.4	19.5	22.2	21.8	21.1
Cost of funds (%)	8.8	9.3	10.1	9.8	9.4

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	1,559	1,589	1,589	1,589	1,589
Reserves & surplus	40,110	49,480	64,367	82,191	1,02,584
Net worth	41,669	51,069	65,956	83,781	1,04,173
Deposits	0	0	0	0	0
Borrowings	1,15,026	1,46,399	2,19,326	2,63,146	3,15,724
Interest bearing liab.	1,15,026	1,46,399	2,19,326	2,63,146	3,15,724
Other liabilities & prov.	18,124	21,112	5,990	17,617	23,620
Total liabilities & equity	1,74,819	2,18,581	2,91,271	3,64,544	4,43,516
Net advances	1,47,653	1,90,433	2,47,558	3,08,935	3,79,020
Investments	5	4,545	5,453	5,726	6,012
Cash, other balances	17,614	14,364	28,512	39,472	47,359
Interest earning assets	1,65,272	2,09,343	2,81,523	3,54,133	4,32,391
Fixed assets	6,320	6,030	6,138	6,440	6,758
Other assets	3,227	3,208	3,610	3,971	4,368
Total assets	1,74,819	2,18,581	2,91,271	3,64,544	4,43,516
BVPS (Rs)	267.6	324.5	415.1	527.2	655.5
Adj. BVPS (INR)	259.2	321.1	413.1	523.7	649.3
Gross advances	1,65,990	2,10,310	2,73,403	3,41,754	4,20,357
Credit to deposit (%)	128.4	130.1	112.9	117.4	120.0
CASA ratio (%)	10.6	9.0	12.4	13.2	12.7
Cost of deposits (%)	8.8	9.3	10.1	9.8	9.4
Loans-to-Assets (%)	84.5	87.1	85.0	84.7	85.5
Net advances growth (%)	22.2	26.7	30.0	25.0	23.0
Deposit growth (%)	5.1	27.3	49.8	20.0	20.0
Book value growth (%)	3.0	21.3	27.9	27.0	24.3

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	61.3	26.5	14.8	12.4	10.8
P/B (x)	5.4	4.3	3.4	2.7	2.1
P/ABV (x)	5.5	4.4	3.4	2.7	2.2
P/PPOP (x)	20.2	14.8	9.2	7.6	6.3
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
DuPont-RoE split (%)					
NII/avg assets	9.7	10.7	12.9	12.4	12.2
Other income	1.1	1.1	0.7	0.7	0.7
Fee income	0.7	0.8	0.5	0.5	0.6
Opex	4.2	4.2	4.2	4.2	4.2
PPOP	6.7	7.7	9.4	9.0	8.7
Core PPOP	6.6	7.7	9.4	9.0	8.7
Provisions	3.7	2.0	1.6	1.7	2.0
Tax expense	0.8	1.4	2.0	1.8	1.7
RoA (%)	2.2	4.2	5.8	5.4	5.0
Leverage ratio (x)	4.1	4.2	4.4	4.4	4.3
RoE (%)	8.8	17.8	25.4	23.8	21.7

Quarterly data					
Rs mn, Y/E Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
NII	5,158	5,674	6,908	7,641	7,722
NIM (%)	12.0	11.9	12.2	13.0	13.10
PPOP	3,344	3,795	5,029	5,416	5,648
PAT	1,761	2,158	2,966	3,463	3,492
EPS (Rs)	11.30	13.84	19.03	22.22	22.40

Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
23-Jul-23	1,314	1,800	Buy	Anand Dama
01-Jul-23	1,248	1,650	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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