

# CreditAccess Grameen Limited

BUY

CMP Rs679

Target Rs810

Upside 19.4%

## Soft Q2, but on way towards achieving trend profitability - Retain BUY, Upgrade 12m PT to Rs810

Overall CREDAG's performance in Q2 FY21 can be termed as soft. While profit was largely in-line with our expectation, the PPOP was 15% lower due to contraction in NIM (10% NII miss) and more than anticipated decline in consol. AUM (5% qoq). The liquidity buffer was raised from 10% to 15% of BS on sequential basis as significant liquidity was tapped from various available sources to support growth normalization in H2 FY21. Having built significant Covid provision in preceding two quarters, the management chose to do a relatively smaller addition in Q2 FY21 considering improving trends in collection efficiency and borrower activation. The standard asset provisioning buffer in stand-alone company stands at 3.5% and in MMFL at 2.8%.

With expectation of collection efficiency largely normalizing by the end of December, the Management expects Covid related credit cost to 3.75-4%. Having resumed new customer acquisition from October, the AUM growth for the year is targeted at 10-12%. FY22 is likely to play out as a normal year from growth perspective and credit cost too is estimated to largely regularize (some spillover of Covid related write-offs). Recent equity capital raising of Rs8bn, unwinding of liquidity buffer and utilization of latent growth capacity would enhance PPOP margin/growth in FY22. We see CREDAG delivering 4.2-4.5% RoA in the next year. Valuation at 2.3x FY22 P/ABV is palatable for a quality MFI franchise on its way towards achieving trend profitability. Retain BUY and upgrade 12m PT to Rs810, as we factor capital raise and restrained credit cost.

## Management Commentary

### Collection & Customer Activation

- ✓ Collection efficiency for CAGL stood at 88% in September and 89% in October and for MMFL was 83% in September and 85% in October.
- ✓ Collections temporarily slowed in second half of October due to a) cyclonic floods in certain parts of Maharashtra and Karnataka, b) intermittent lockdown imposed in Chhattisgarh, and c) brief period of festivities.
- ✓ % of non-paying customers in CAGL and MMFL during September was ~8% and ~7% respectively; of which, ~24% and ~33% have paid in October.
- ✓ 80%+ of CAGL's customers made full payment in October and ~85% of customer groups in MMFL made payment in full or between 50-100% in October.
- ✓ Majority of the non-paying customer pool located in Southern Maharashtra (was hit by floods last year also).

## Exhibit 1: Financial Summary

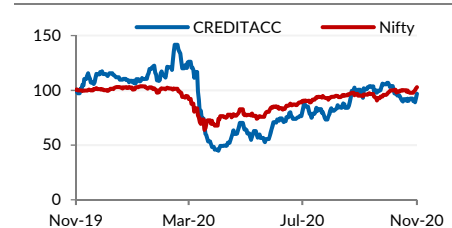
Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Operating income	8,666	11,255	15,909	19,186
PPOP	5,726	6,989	9,937	12,018
Net profit	3,218	3,336	3,697	7,170
yoy growth (%)	51.4	3.7	10.8	94.0
EPS (Rs)	22.4	23.2	23.4	45.4
Adj.BVPS (Rs)	164.8	189.9	254.2	299.6
P/E (x)	30.2	29.2	28.9	14.9
P/adj.BV (x)	4.1	3.6	2.7	2.3
ROE (%)	16.9	13.3	11.0	16.4
ROA (%)	5.2	3.7	2.7	4.4
CAR (%)	35.7	23.6	29.9	29.1

Source: Company, YES Sec - Research

### Stock data (as on November 06, 2020)

Nifty	12,264
52 Week h/l (Rs)	1000 / 305
Market cap (Rs/USD mn)	105506 / 1422
Outstanding Shares (mn)	155
6m Avg t/o (Rs mn):	73
Div yield (%):	-
Bloomberg code:	CREDAG IN
NSE code:	CREDITACC

### Stock performance



	1M	3M	1Y
Absolute return	-9.3%	15.9%	-2.3%

### Shareholding pattern

Promoter	74.1%
FII+DII	18.8%
Others	7.1%

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- ✓ Only 2-3% of customers would have not paid anything in the last 4-5 months.
- ✓ For all states barring Maharashtra, the collection efficiency should normalize by December. Maharashtra could take a couple of more months.

## Provisioning & Credit Cost Expectations

- ✓ Total ECL provisions at Rs5.6bn (5.2% of consol. loan portfolio) - CAGL ECL at 5.35% v/s GNPA of 1.8% (w/o SC forbearance) implying 3.5% standard asset provisioning buffer - MMFL ECL at 4.3% v/s GNPA of 1.5% (w/o SC forbearance) implying 2.8% standard asset provisioning buffer.
- ✓ In Q2 FY21, Rs660mn Covid provisions were done in CAGL and Rs250mn provisions were done in MMFL for harmonization of ECL.
- ✓ Covid-related credit cost estimated to be 3.75-4%. Majority of this will come through FY21 and residual will spill over to FY22. Besides this, usual credit cost of 1-1.25% expected.
- ✓ PAR 15-60 bucket for CAGL stands at Rs5.3bn.

## Liquidity & Funding

- ✓ Consolidated cash & bank balance and liquid investments as on Sept. 30 at Rs19bn – CAGL Rs16.6bn (15% of BS) and MMFL Rs2.4bn (12% of BS).
- ✓ Rs12.4bn of undrawn sanctions - CAGL Rs9.8bn and MMFL Rs2.6bn.
- ✓ Rs8bn raised via QIP recently to further support liquidity position.
- ✓ Borrowing cost was flat sequentially adjusted for low-cost refinancing available from SIDBI and NABARD in the preceding quarter.

## Disbursement & AUM Growth

- ✓ In Q2 FY21, disbursements were made only to existing customers having good repayment record.
- ✓ New customer additions commenced in October, indicating normal business growth going forward - new customers formed ~40% of October disbursements.
- ✓ October disbursements in CAGL stood at Rs9.7bn (Rs14.2bn in Q2 FY21) and in MMFL stood at Rs1.6bn (Rs2.3bn in Q2 FY21).
- ✓ With new client addition resuming, borrower base is expected to grow in the future.
- ✓ Company has liquidity and ability to grow in H2 FY21. Management expects AJM growth in FY21 to be 10-12%. FY22 expected to be a normal growth year.

## Exhibit 2: Result Table

(Rs mn)	Q2 FY21*	Q1 FY21*	% qoq	Q2 FY20	% yoy
Total Operating Income	5,760	6,193	(7.0)	3,930	46.6
Interest expended	(2,365)	(2,327)	1.6	(1,355)	74.5
Net Interest Income	3,395	3,866	(12.2)	2,575	31.9
Other income	10	6	67.2	1	977.8
Total Income	3,405	3,872	(12.1)	2,576	32.2
Operating expenses	(1,436)	(1,316)	9.1	(1,024)	40.2
PPOP	1,969	2,556	(23.0)	1,552	26.9
Provisions	(902)	(1,551)	(41.9)	(281)	220.5
PBT	1,067	1,005	6.2	1,270	(16.0)
Tax	(271)	(258)	5.0	(261)	3.9
Minority Interest	(4)	(26)	(86.5)	-	-
PAT	792	720	10.0	1,009	(21.5)

Source: Company, YES Sec – Research; \* Consolidation of Madura Microfinance from March 18, 2020

## Exhibit 3: State-wise GLP mix

(Rs mn)	Q2 FY21*	Q1 FY21*	% qoq	Q2 FY20	% yoy
Karnataka	39.6	40.0	(1.0)	51.0	(22.4)
Maharashtra	24.8	24.2	2.5	25.8	(3.9)
Tamil Nadu	19.8	19.9	(0.5)	11.2	76.8
Madhya Pradesh	7.6	7.6	-	8.1	(6.2)
Others	8.2	8.3	(1.2)	3.9	110.3

Source: Company, YES Sec – Research; \* Consolidation of Madura Microfinance from March 18, 2020

## Exhibit 4: CAGL – Standalone performance

(Rs mn)	Q2 FY21	Q1 FY21	% qoq	Q2 FY20	% yoy
GLP	92,070	96,800	(4.9)	79,050	16.5
Borrowers (mn)	2.8	2.9	(2.6)	2.6	6.1
NII	2,728	3,225	(15.4)	2,514	8.5
PPOP	1,701	2,245	(24.2)	1,551	9.7
Provisions	653	1,390	(53.0)	281	132.4
PBT	1,048	855	22.6	1,270	(17.5)
PAT	782	636	23.0	1,009	(22.5)

Source: Company, YES Sec – Research

## Exhibit 5: CAGL Standalone – Key ratios

(%)	Q2 FY21	Q1 FY21	chg qoq	Q2 FY20	chg yoy
NIM	11.1	12.5	(1.4)	12.3	(1.2)
C/I	39.2	31.0	8.2	39.8	(0.6)
Opex/GLP	4.6	4.1	0.5	5.3	(0.7)
GNPL	1.8	1.6	0.2	0.5	1.3
NNPL	-	-	-	-	-
RoA	2.7	2.2	0.5	4.8	(2.1)
RoE	11.3	9.4	1.9	16.1	(4.8)

Source: Company, YES Sec – Research

## Exhibit 6: MMFL – Standalone performance

(Rs mn)	Q2 FY21	Q1 FY21	% qoq	Q2 FY20	% yoy
GLP	19,750	20,440	(3.4)	20,490	(3.6)
Borrowers (mn)	1.1	1.2	(4.9)	1.1	2.6
NII	572	607	(5.8)	610	(6.2)
PPOP	300	351	(14.5)	382	(21.5)
Provisions	250	161	55.3	153	63.4
PBT	50	190	(73.7)	229	(78.2)
PAT	37	141	(73.8)	126	(70.6)

Source: Company, YES Sec – Research

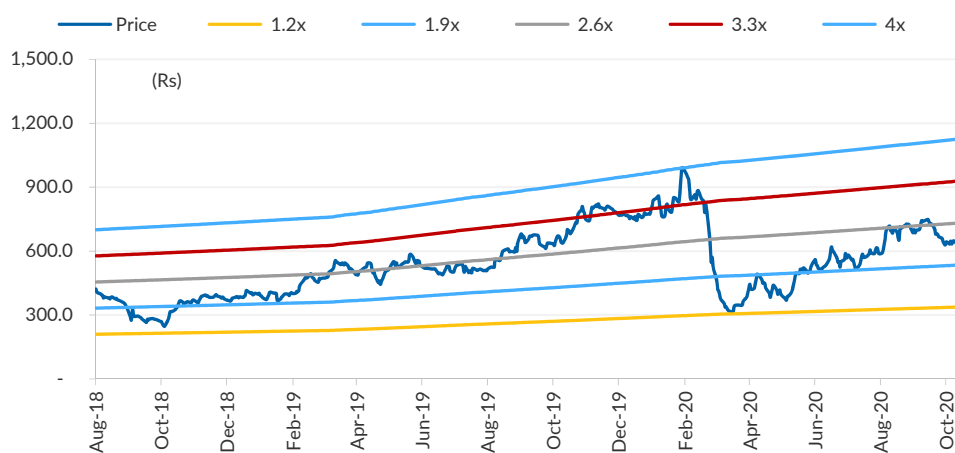
## Exhibit 7: MMFL Standalone – Key ratios

(%)	Q2 FY21	Q1 FY21	chg qoq	Q2 FY20	chg yoy
NIM	11.2	11.5	(0.3)	11.0	0.2
C/I	49.9	43.0	6.9	40.7	9.2
Opex/GLP	5.9	5.1	0.8	5.3	0.6
GNPL	1.5	1.6	(0.1)	1.5	0.0
NNPL	-	-	-	-	-
RoA	0.7	2.5	(1.8)	2.3	(1.6)
RoE	3.5	13.7	(10.2)	14.1	(10.6)

Source: Company, YES Sec – Research

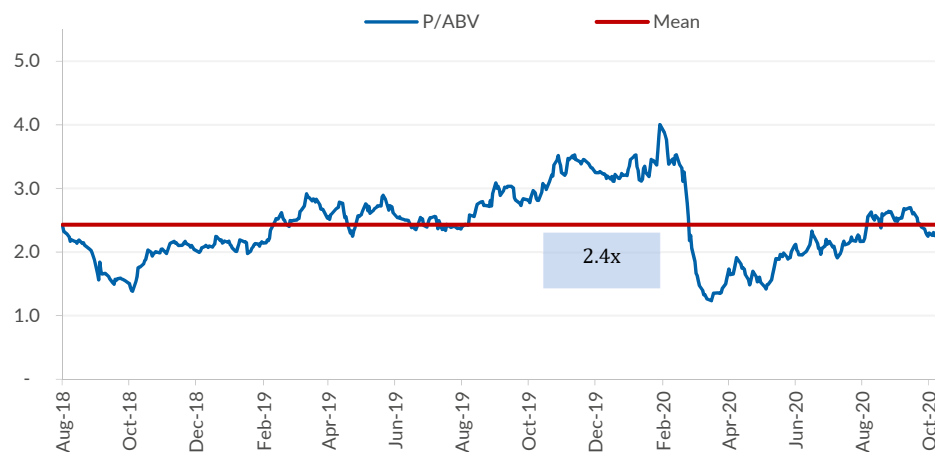
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**Exhibit 8: 1-year rolling P/ABV band**



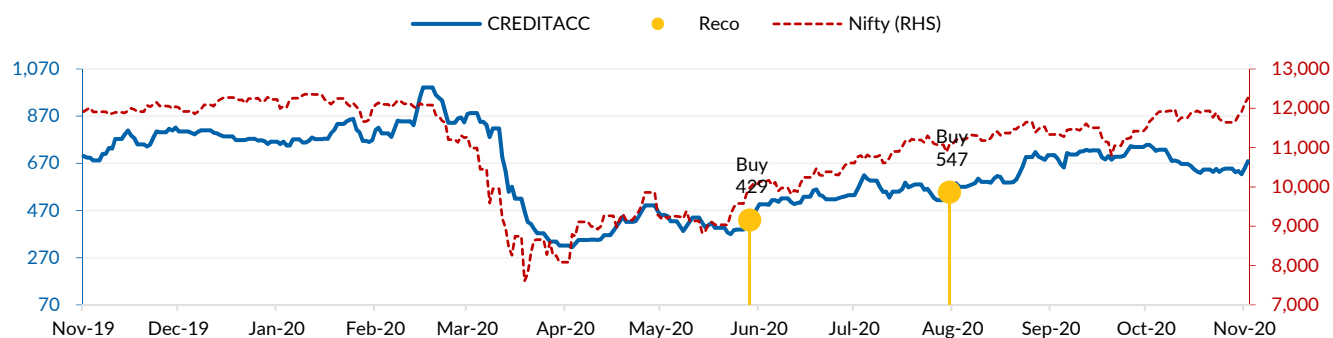
Source: Company, YES Sec – Research

**Exhibit 9: 1-yr rolling P/ABV vis-a-vis the mean**



Source: Company, YES Sec – Research

## Recommendation Tracker



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