

CreditAccess Grameen Limited

BUY

CMP Rs694

Target Rs1,000

Upside 44.1%

Overall CREDAG's Cycle-completing provisions drives the loss in Q3 FY21; however, growth/profitability metric should be normal in FY22/23

- ✓ Accelerated provisioning and clean-up led to a loss in Q3 FY21, but focus should be on the return of growth and likely profitability normalization from Q4 itself. Based on the transient spike in PAR 60+/90+ portfolios and a conservative provisioning policy, CREDAG was required to make large provisions. This despite the likelihood of PAR 60+/90+ correcting over ensuing quarters, as witnessed during previous crisis/incidents. Also supporting this possibility is CREDAG's zero exposure to Assam and WB.
- ✓ Collection efficiency in Maharashtra, particular in the more affected southern parts of the state, has started to recover which was reflected in increasing overdue collections (roll backs) in Dec and Jan. The company also cleaned-up pre-Covid NPLs located in southern Maharashtra and coastal Karnataka.
- ✓ Besides the provisioning requirement for aligning NPL recognition and provisioning policies of MMFL, the credit cost in Q4 should be low (pertaining only to incremental growth). With eventual loss estimated to be lower than the current provisioning held (ECL at 5.9% of GLP), management expects some provision to be write-back in H1 F22.
- ✓ The strong 10% sequential growth in the portfolio came as a positive surprise. Disbursements stood at Rs45bn (up 30%+ yoy). CREDAG added ~162000 new borrowers, who contributed 15-18% of the disbursements. With liquidity no more an issue, collections having improved and economic activity reviving at fast clip (raising confidence for new group formation), the strategic focus has shifted back to growth. Management now expects to surpass the earlier guidance of 10-12% growth in FY21.
- ✓ Our view of a normal growth and profitability in FY22/23 remains unchanged (rather earnings estimates undergo slight uptick), and thus we continue to expect a material re-rating of the stock. Valuation at 1.9x FY23 P/ABV for a best-in-class MFI franchise is attractive. Retain BUY recommendation and 12m TP of Rs1000.

CAGL - Key Notables

- ✓ CAGL proforma GNPL at 6.8% (60+ dpd) against which ECL of 5.9% - MH 60+ dpd at 12.5%, KTK/TN at 5%/4%.
- ✓ MH has 90+ of 10%, highlighting slow improvement in monthly collection efficiency.

Exhibit 1: Financial Summary

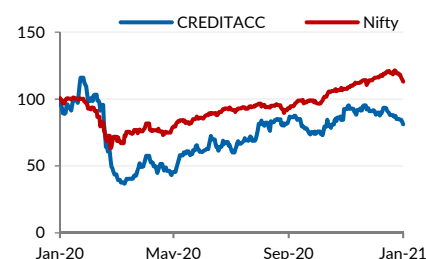
Y/e 31 Mar (Rs mn)	FY20	FY21E	FY22E	FY23E
Operating income	11,255	14,682	19,143	24,486
PPOP	6,989	8,794	11,784	15,287
Net profit	3,336	2,261	7,815	9,911
yoy growth (%)	3.7	(32.2)	245.6	26.8
EPS (Rs)	23.2	14.3	49.5	62.7
Adj. BVPS (Rs)	189.9	245.1	294.6	357.3
P/E (x)	29.9	48.4	14.0	11.0
P/adj.BV (x)	3.6	2.8	2.4	1.9
ROE (%)	13.3	6.8	18.3	19.2
ROA (%)	3.7	1.7	4.8	4.8
CAR (%)	23.6	28.9	27.9	26.2

Source: Company, YES Sec - Research

Stock data (as on January 29, 2021)

Nifty	13,635
52 Week h/l (Rs)	1000 / 305
Market cap (Rs/USD mn)	107915 / 1479
Outstanding Shares (mn)	155
6m Avg t/o (Rs mn):	88
Div yield (%):	-
Bloomberg code:	CREDAG IN
NSE code:	CREDITACC

Stock performance



	1M	3M	1Y
Absolute return	-8.2%	7.1%	-13.3%

Shareholding pattern

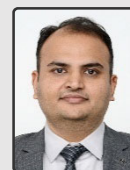
Promoter	74.0%
FII+DII	18.9%
Others	7.1%

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- ✓ The 6.8% PAR 60+ portfolio includes 2.5% representing customers who would have made part payment in December.
- ✓ Collection Efficiency (w/o arrears) of 91% in Dec with 88% customers making full payment, 7% customers making part payments and 5% making no payment (though may have paid full or part in earlier months).
- ✓ Collection Efficiency (with arrears) of 96% in Dec (v/s 92% in Nov), suggesting likely correction in PAR 60+/90+ figures in coming months - roll-back of partially paying customers and activation of non-paying.
- ✓ 70% ECL on done on PAR 60+ portfolio and 17% ECL on PAR 16-60 bucket.
- ✓ 99% of disbursements during June-Dec were to regular customers.
- ✓ Interest income of Rs612mn de-recognized in Q3 FY21 on PAR 60+.

MMFL – Key Notables

- ✓ MMFL proforma GNPL at 2.8% (90+ dpd) against which ECL of 4.6%.
- ✓ Collection Efficiency (w/o arrears) of 86% in Dec with 86% groups making full payment, 12% making part payments (higher than CAGL due to monthly collections) and only 2% making no payment (though may have paid full or part in earlier months).
- ✓ Collection Efficiency (with arrears) of 87% in Dec (v/s 84% in Nov), suggesting likely correction in PAR 90+ figures in coming months.
- ✓ 64% ECL on done on PAR 90+ portfolio and 16% ECL on PAR 31-90 bucket.
- ✓ Interest income of Rs73mn de-recognized in Q3 FY21 on PAR 90+.

Management Commentary

Key takeaways

- ✓ Management expects majority of the part-paying customers and 10-20% of the non-paying customers to start regularly paying in the coming months.
- ✓ MH was under lockdown for 4.5 months, thus will take 2 more months for normalcy – speed of recovery quite fast in recent months.
- ✓ During December, the flow back in MH portfolio was higher than other states – indicating improvement in collection situation.
- ✓ Within MH, collections in Vidharbha near 94%, even coastal areas witnessing better collections – Southern part of the state is where CE is low.
- ✓ No political intervention in districts which are lagging in collections.
- ✓ Collections in KTK at 94%, and most large districts here – one of the Top 10 districts is Kolhapur, where collection is around 80%.
- ✓ Accelerated provisioning and write-off led to loss in Q3 - higher provisioning was triggered by transient high PAR figures.
- ✓ As PAR 60/90 is expected to come down in ensuing months, the eventual write-off will be lower than the current provisioning – expected to be near 5% of the portfolio.
- ✓ New portfolio/book, which is 49% of the GLP, is exhibiting usual collection trends.
- ✓ Going ahead, the BAU credit cost will be around 1% (higher than pre-Covid) due to behavior changes caused by the pandemic.
- ✓ Management expects robust business growth in FY22 and FY23 – guidance of 10-15% AUM growth for FY21 is likely to be surpassed.
- ✓ Rs46bn were disbursements in Q3 - added 162000 new borrowers, who contributed 15-18% of the disbursements.

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- ✓ Majority of the disbursements came from new branches - in KTK, TN, BH, JH, RJ, GJ and some parts of MH.
- ✓ Want to carry liquidity buffer of 12-15% of BS in the near-term due to some uncertainty - this will come down to 8% over the medium term.
- ✓ Will make at least 2% RoA in FY21.

Exhibit 2: Result Table

(Rs mn)	Q3 FY21*	Q2 FY21*	% qoq	Q3 FY20	% yoy
Total Operating Income	5,415	5,760	(6.0)	4,532	19.5
Interest expended	(2,249)	(2,365)	(4.9)	(1,459)	54.2
Net Interest Income	3,166	3,395	(6.7)	3,073	3.0
Other income	15	10	53.6	4	263.4
Total Income	3,181	3,405	(6.6)	3,077	3.4
Operating expenses	(1,478)	(1,436)	3.0	(1,071)	38.1
PPOP	1,703	1,969	(13.5)	2,006	(15.1)
Provisions	(2,757)	(902)	205.7	(547)	403.9
PBT	(1,054)	1,067	(198.7)	1,459	(172.2)
Tax	263	(271)	(196.9)	(379)	(169.3)
Minority Interest	18	(4)	(608.6)	-	#DIV/0!
PAT	(773)	792	(197.6)	1,080	(171.6)

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

Exhibit 3: State-wise GLP mix

(%)	Q3 FY21*	Q2 FY21*	chg qoq	Q3 FY20	chg yoy
Karnataka	38.3	39.6	(1.3)	49.4	(11.1)
Maharashtra	24.8	24.8	-	26.7	(1.9)
Tamil Nadu	19.5	19.8	(0.3)	11.1	8.4
Madhya Pradesh	8.1	7.6	0.5	8.6	(0.5)
Others	9.3	8.2	1.1	4.2	5.1

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

Exhibit 4: CAGL Standalone - Key ratios

(%)	Q3 FY21	Q2 FY21	chg qoq	Q3 FY20	chg yoy
NIM	8.7	11.1	(2.4)	12.4	(3.7)
C/I	43.5	39.2	4.3	34.8	8.7
Opex/GLP	4.7	4.6	0.1	5.1	(0.4)
GNPL	6.8	1.6	5.2	0.9	6.0
RoA	(2.5)	2.7	(5.2)	4.6	(7.1)
RoE	(9.0)	11.3	(20.3)	16.5	(25.5)

Source: Company, YES Sec - Research

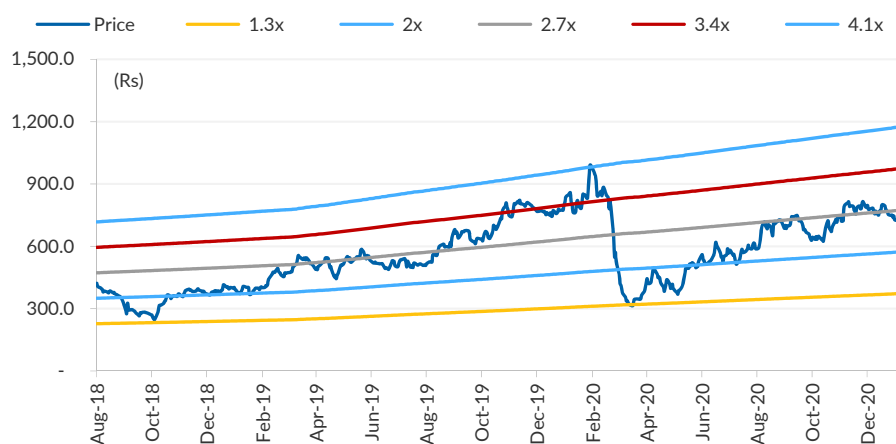
Exhibit 5: MMFL Standalone - Key ratios

(%)	Q3 FY21	Q2 FY21	chg qoq	Q3 FY20	chg yoy
NIM	10.2	11.2	(1.0)	11.9	(1.7)
C/I	52.6	49.9	2.7	39.4	13.2
Opex/GLP	5.9	5.9	-	5.5	0.4
GNPL	2.8	1.5	1.3	1.6	1.2
RoA	(0.8)	0.7	(1.5)	3.2	(4.0)
RoE	(4.2)	3.5	(7.7)	18.8	(23.0)

Source: Company, YES Sec - Research

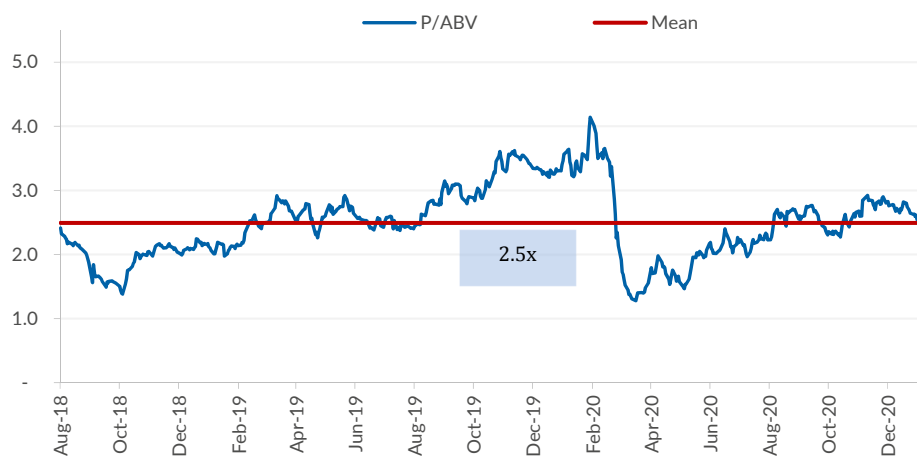
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Exhibit 6: 1-year rolling P/ABV band



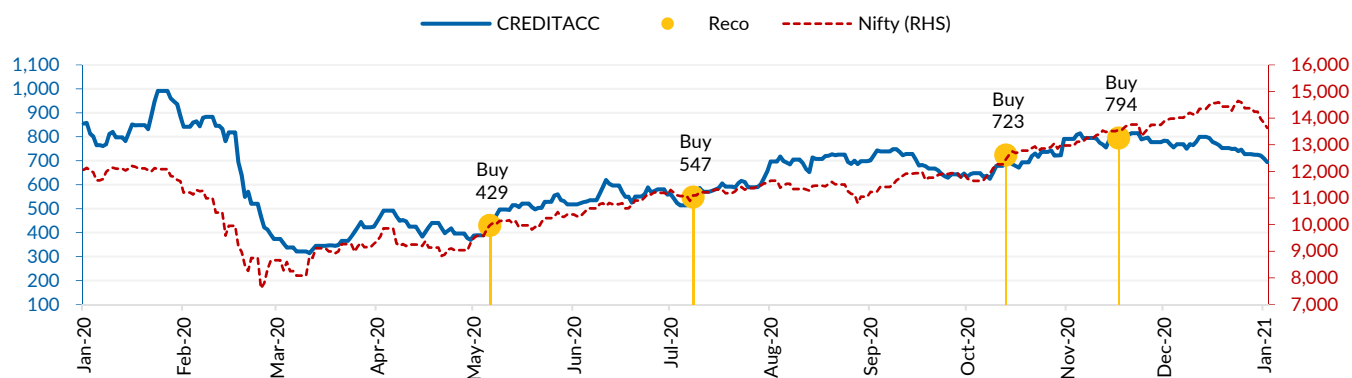
Source: Company, YES Sec – Research

Exhibit 7: 1-yr rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec – Research

Recommendation Tracker



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