



CreditAccess Grameen Ltd

**INITIATING COVERAGE
REPORT**

CREDITACCESS GRAMEEN LTD.

Market Cap.

Rs.11,336 Cr.

52 Week H/L

Rs.1000 / 305

CMP

Rs.729

Target Price

Rs.898

STOCK DATA

BUY

Reuters Code		CRDE.BO
Bloomberg Code		CREDAG.IN
BSE Code		541770
NSE Symbol		CREDITACC
Face Value		10
Shares Outstanding		15.55 Cr
Avg. Daily Vol. (6m)		1,27,250
Price Performance (%)		
1M	3M	6M
(2)	17	34
200 Days EMA Rs. 681		

SHARE HOLDING (%)

Promoters	74.0
FII	9.5
FI/Bank	9.4
Body Corporate	0.2
Public & Others	6.8

RESEARCH ANALYST

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Customer Centricity – the key differentiator

Customer centricity is the basic tenet in design of products and processes. For instance, customers can choose their repayments frequency; weekly, bi-weekly or four-weekly, based on their cashflow while contracting the loan. The company have been banking on digital technologies along with introducing new products leading to increase in penetration, improving operational efficiencies and leading to better customer stickiness. Its customer centric model and wide range of products have enabled it to achieve high customer retention rates over the years. CreditAccess Grameen (CAG) have maintained a strong track record of financial performance over the years on account of customer retention, robust risk management and geographic expansion.

Funding – not a constraint

CAG promoter, CreditAccess Asia N.V., a multinational company specializing in MSE financing (micro and small enterprise financing), which is backed by institutional investors and has micro-lending experience through its subsidiaries in Asia. Promoter has provided capital funding to CAG from time to time and provides access to potential fundraising opportunities in the debt capital markets.

OUTLOOK & VALUATION

CAG is the largest microfinance in India with Gross loan portfolio of Rs.~11,200 cr. We believe CAG is best placed to grow and capture high market share on account of its strong capital base supported by strong parentage, focus on under penetrated rural areas and early stress recognition practice. Going forward, with pick up in loan growth and lower credit cost, we expect CAG to report ROA/ROE of 4.1%/19.1%. We initiate coverage with a BUY rating for target price of Rs.898 for 18-24 months.

Y/E	Total Income	PAT	AEPS	NIM	P/E	P/ABV	ROE	ROA
Mar.	(Rs cr)	(Rs cr)	(Rs)	(%)	(x)	(%)	(%)	(%)
FY20	1,705	335	23.0	11.0	30.2	3.7	13.2	3.4
FY21E	2,107	243	16.9	10.4	41.1	3.5	8.5	1.9
FY22E	2,449	495	34.3	11.0	20.2	3.0	15.4	3.4
FY23E	3,053	729	50.6	11.6	13.7	2.5	19.1	4.1

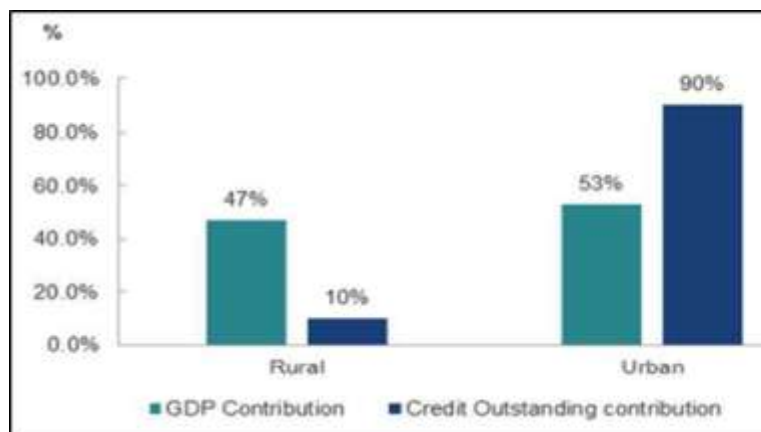
Micro Finance – Huge opportunity to untap

The microfinance sector in India has grown at a CAGR of 23.1% over the past ten years to reach ₹2,633 billion as of March 2019, despite some setbacks that have impacted the industry's growth. The industry has evolved over time, starting with the Self-Help Group ("SHG") Bank Linkage programme and not-for-profit organisations ("NGOs") being the key participants in the sector, to the scaling of NBFCs and the launch of the SFBs.

Rural India accounts for 25% of total loan accounts in scheduled commercial banks as on Sept-2020, despite rural India making 66% of the total population. Also from the chart below, it can be seen that rural contributes to 47% of GDP, but only 10% to total credit outstanding. This under penetration of credit offers growth opportunity.

We believe that microfinance institutions are well placed to reap the benefits considering its reach, existing customer relationships and experience. Local lenders meet the funding requirement of the rural people, however charge hefty interest rates. RBI doesnot want MFI to charge high interest rates to borrowers, therefore they have capped the spread of 10% for MFIs, which makes borrowing from MFIs attractive.

MFI Industry - Gross loan portfolio (GLP) as on September 30, 2020, is INR 2,31,778 cr, an increase of 14.90% YoY, while Gross Loan Portfolio (GLP) of NBFC-MFIs stood at INR 71,147 cr, an increase of 12% yoy. Average loan disbursement per account for Q2 FY 20-21 stood at INR 32,912 which is an increase of around 20%. From the entire MFI universe, Banks hold the largest share of the portfolio in micro-credit (40.7%), followed by NBFC-MFIs (30.2%), SFB (18.6%), NBFC (9.5%) and others (1%)

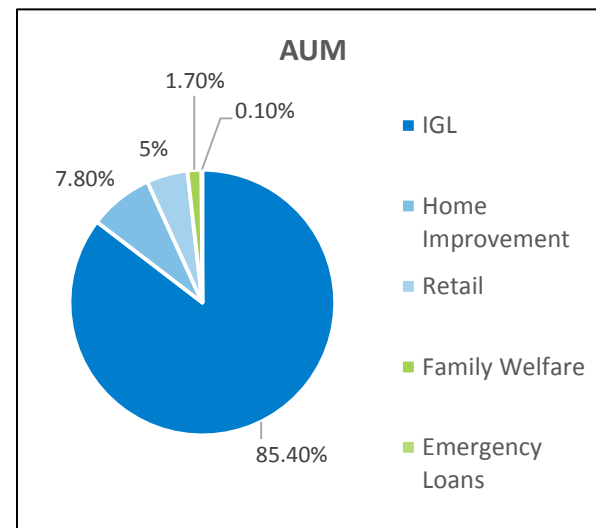


Source: Company, Sushil Finance Research

Customer Centricity - the blue differentiator

Flexibility to borrow for number of specified purposes and flexibility in timing the disbursement that necessarily doesn't match with other JLG members, are the highlights of the products. Group meetings with members and loan officer is on weekly basis, however borrowers have the option to repay either on weekly, fortnightly or monthly basis depending on cash flows to the borrower. Diversification along with customer centric model ensures that customers have access to various products and services. In 2016, CAG introduced individual retail finance loans on a pilot basis for customers who had been Customers for at least three years and fulfil certain other eligibility criteria linked primarily to their credit history, income, and business position. This loan category targets Customers who are more entrepreneurial and have graduated from the JLG model and are capable of taking larger loans in their individual capacities. CAG offer these loans to Customers to establish a new enterprise or expand an existing business in their individual capacity. The loans are offered to Customers for business expansion, or for purchase of inventories, machinery or two-wheelers. Typically, these customers may be capable of obtaining such loans from other financial institutions or banks on the condition that they provide collateral, and with a higher turnaround time, than what CAG offers and at interest rates which are similar to or higher than CAG loans, which it making CAG product offerings more attractive.

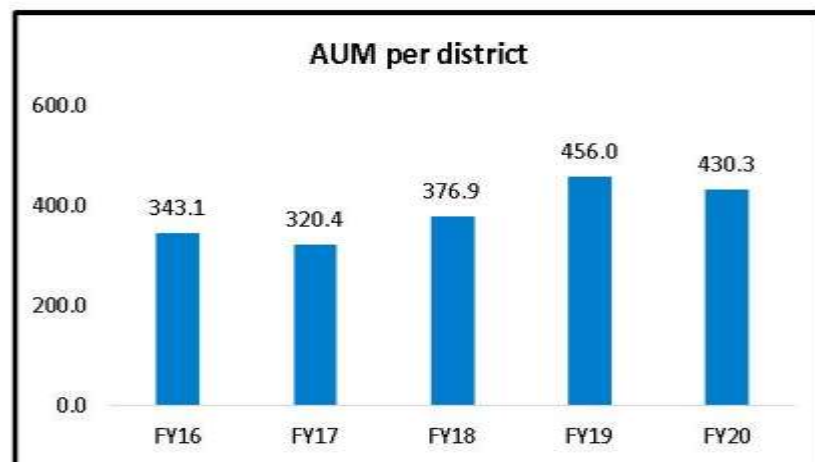
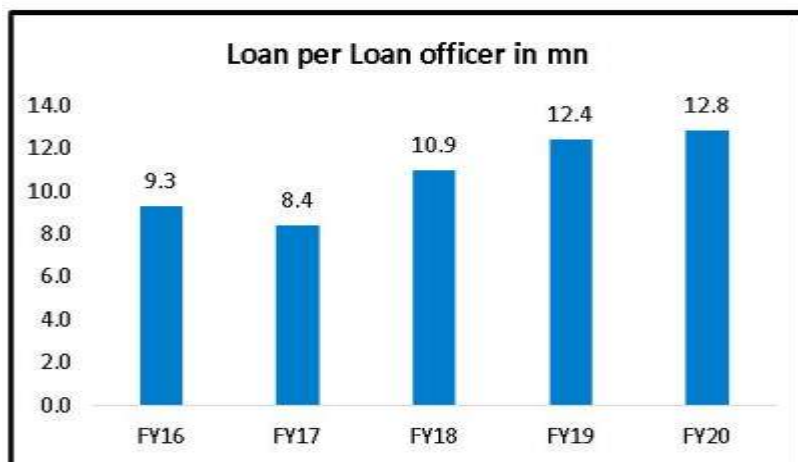
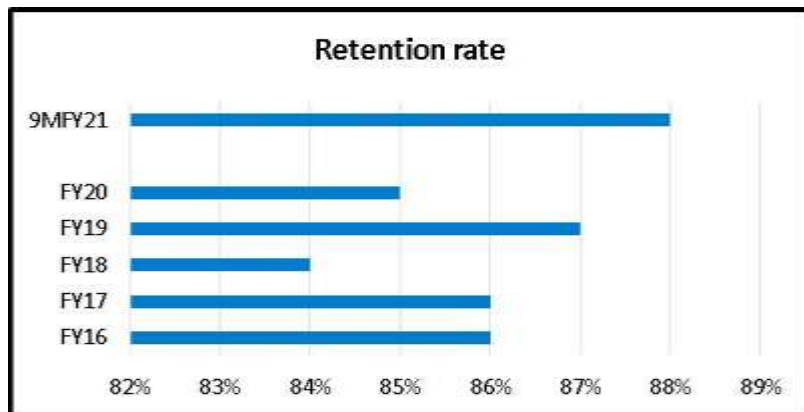
Loan Type	Customer Centric Products	Purpose	Ticket Size (INR)	Tenure (months)
Group	Income Generation Loan(IGL)	Business Investments and Income Enhancement activities	5,000 - 80,000	12-24
Group	Home Improvement Loans	Water Connections, Sanitation and Home Improvement & Extensions	5,000 - 50,000	12-48
Group	Family Welfare Loans	Festival, Medical, Education and Livelihood Improvement	1,000 - 15,000	3-12
Group	Special Situation Loans	Emergencies	2,000	6
Group	Emergency Loans	Emergencies	1,000	3
Individual	Retail Finance Loans	Purchase of inventory, machine, assets or for making capital investment in business or business expansion	Up to 5,00,000	6-60



Source: Company, Sushil Finance Research

Customer Centricity - the key differentiator (cont)..

As a result of flexibility, diversification and customer centricity, retention rate of CAG has been above 80% for many years.



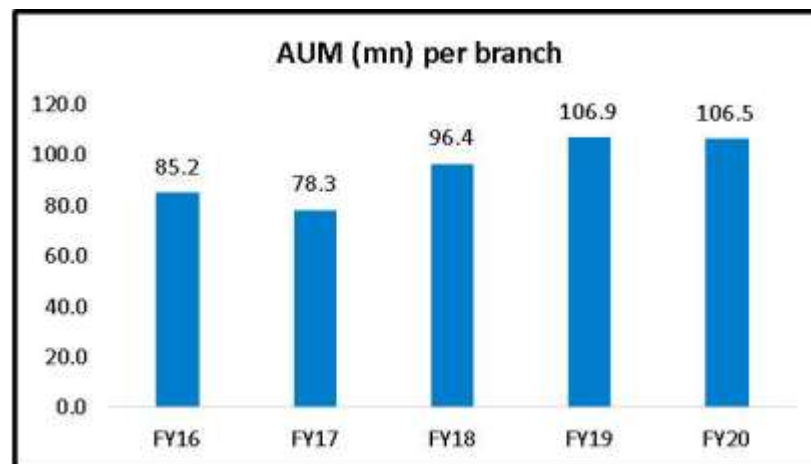
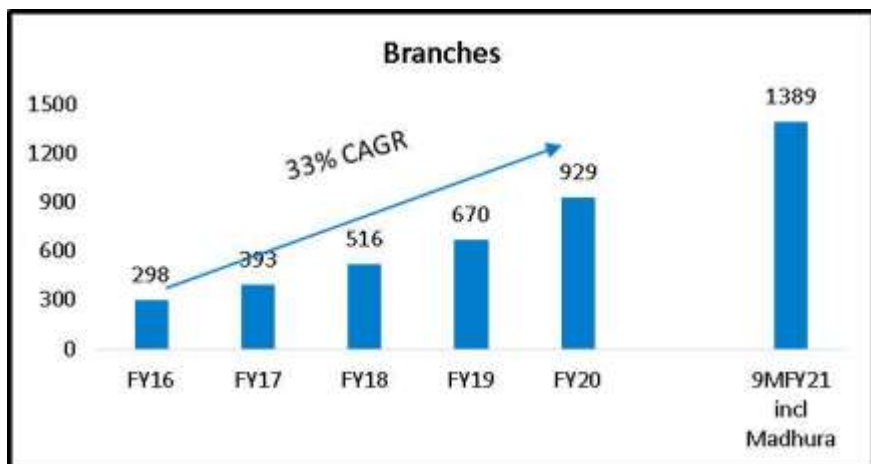
Source: Company, Sushil Finance Research

Steady Network expansion across states

CAG follows contiguous expansion strategy methodically whereby it aims to expand to the next (typically adjoining) district and ensure deep penetration in a particular district within three years of commencement of operations in the district. It considers certain parameters for opening branches in new districts:

- growth potential based on current penetrations
- competition from other MFIs in the area
- historic PAR% of the proposed district
- availability of infrastructure for the day-to-day operations of the branch

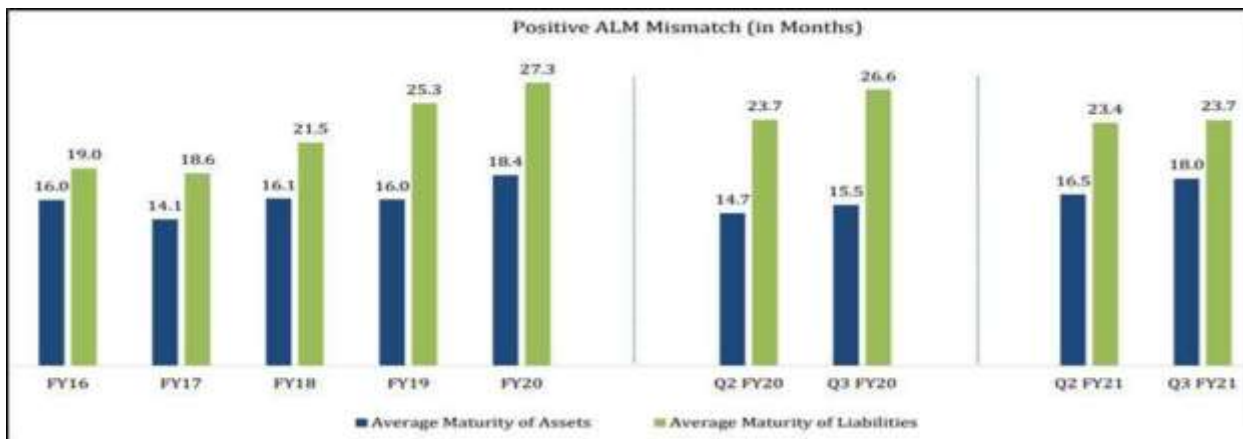
This strategy negates concentration risk in a particular district. CAG AUM has increased at CAGR of 41% over FY16-20, driven by 25% CAGR in borrowers with 33% CAGR in branches. Going forward, we expect AUM to increase by CAGR of 29% for FY19-23 with inclusion of Madura Microfinance from FY20.



Source: Company, Sushil Finance Research

Funding – not a constraint

ALM of CAG is positive with average maturity of liabilities at 23.7 months as compared to 18 months for assets. Funding is diversified with banks contributing 54%, NCD-9.4% and foreign institution contributing around 21.5%. CAG promoter, CreditAccess Asia N.V., a multinational company specializing in MSE financing (micro and small enterprise financing), which is backed by institutional investors and has micro-lending experience through its subsidiaries in Asia. Promoter has provided capital funding to CAG from time to time and provides access to potential fundraising opportunities in the debt capital markets. Going forward, it aspires to reduce bank's contribution to below 50% and increase contribution from foreign institution



Source: Company, Sushil Finance Research

Credit cost likely to peak out in FY21

Asset quality was impacted due to four and half months of lockdown in Maharashtra, resulting in GNPA increasing to 6.14% as compared to 1.77% in the previous quarter for 60 DPD. . The company also wrote off INR130cr (including accelerated write-off of INR85cr related to the floods in Karnataka and Maharashtra, which crossed 180+ dpd. Management has upfronted provisions related to Covid related stress in Q3FY21, resulting in annualized credit cost of ~9%. Going forward, company expects normalized provisions to ~1% with improvement in Maharashtra in couple of months. Collection efficiency improved from 88% in Sept 20 to 91% in Dec 20.

COMPANY OVERVIEW

CA Grameen provides collateral-free loans and other services to women from low-income households with the aim of creating equal opportunities for both the urban and rural poor. It was founded in May 1999 as a project under the T. Muniswamappa Trust (TMT), an NGO in South Bangalore. Grameen Trust, Bangladesh, provided seed capital funding to TMT to replicate the Grameen Bank Bangladesh microfinance model. Adapting the Grameen Bank's group lending methodology of microfinance to the Indian setting, CA Grameen began its operations in Bengaluru. In 2013, the RBI reclassified CA Grameen into a regulated and governed Non-Banking Financial Company–Micro Finance Institutions (NBFCMFI).

It is the largest MFI in India with the AUM size of 98,964M as on March-20 on standalone basis with strong presence in Karnataka, Maharashtra and Tamil Nadu. In FY20, it acquired Madura Microfinance (MMFL), thereby bringing total loan portfolio close to Rs.1,20,000M. Total exposure is highly diversified with no single district has > 5% of Gross lending portfolio.

State wise Gross AUM Distribution

	FY16		FY17		FY18		FY19		FY20	
State	Gross AUM (Rs Millions)	% age	Gross AUM (Rs Millions)	% age	Gross AUM (Rs Millions)	% age	Gross AUM (Rs Millions)	% age	Gross AUM (Rs Millions)	% age
KA	16,073	63.3%	18,303	59.5%	28,892	58.1%	37,624	52.6%	46,973	47.5%
MH	7,540	29.7%	8,760	28.5%	13,296	26.7%	18,451	25.8%	26,761	27.0%
TN	925	3.6%	1,924	6.3%	3,389	6.8%	7,465	10.4%	11,070	11.2%
MP	740	2.9%	1,401	4.6%	3,165	6.4%	5,470	7.6%	9,141	9.2%

Source: Company, Sushil Finance Research

Branches



Source: Company, Sushil Finance Research

COMPANY OVERVIEW

Du Pont Analysis	FY19	FY20	FY21E	FY22E	FY23E
Interet Income	19.5%	16.4%	15.8%	16.3%	16.7%
- Interest on Advances	18.5%	16.1%	15.6%	16.0%	16.5%
- Income on Investments	0.9%	0.2%	0.2%	0.2%	0.1%
- Interest on bank balances and others	0.1%	0.1%	0.1%	0.1%	0.1%
Interest Expense	6.7%	5.8%	6.0%	5.7%	5.5%
Net Interest Income	12.9%	10.6%	9.8%	10.6%	11.2%
Non-Int Income	1.0%	0.7%	0.4%	0.5%	0.4%
- of which Treasury	0.9%	0.6%	0.3%	0.4%	0.3%
Net Total Income	13.9%	11.3%	10.3%	11.1%	11.7%
Operating Expenses	4.7%	4.3%	4.3%	4.7%	4.7%
- Employee expenses	3.0%	2.6%	2.7%	3.0%	3.0%
- Other Expenses	1.7%	1.7%	1.6%	1.8%	1.7%
Pre-provision profits	9.2%	7.0%	6.0%	6.3%	6.9%
Provisions	1.2%	2.4%	3.5%	1.8%	1.5%
- NPL provisions	1.2%	2.4%	3.5%	1.8%	1.5%
- Investment provisions	0.0%	0.0%	0.0%	0.0%	0.0%
- Other provisions	0.0%	0.0%	0.0%	0.0%	0.0%
Tax	2.8%	1.3%	0.6%	1.1%	1.4%
PAT (RoA)	5.2%	3.4%	1.9%	3.4%	4.1%
Preference dividend	0.0%	0.0%	0.0%	0.0%	0.0%
Equity / Assets	30.5%	25.6%	22.0%	22.0%	21.5%
ROAE	16.9%	13.2%	8.5%	15.4%	19.1%

Source: Company, Sushil Finance Research

PROFIT & LOSS STATEMENT

(Rs.cr)

Y/E Mar.	FY20	FY21E	FY22E	FY23E
Net interest income	1,053	1,276	1,543	1,992
Growth %	31%	21%	21%	29%
Other income	72	58	72	80
Total income	1,126	1,335	1,615	2,071
Operating expenses	427	555	689	840
Pre-provision Profit	699	780	926	1,231
Total Provision	237	456	267	259
PBT	462	324	659	972
Provision for Tax	126	81	165	243
PAT	335	243	495	729

BALANCE SHEET STATEMENT

(Rs.cr)

As on 31 st Mar.	FY20	FY21E	FY22E	FY23E
Cash balances	718	1,274	461	512
Advances	11,099	11,397	14,816	18,520
Investments	46	50	55	60
Fixed assets	32	35	38	38
Current assets	22	22	22	21
Others	696	575	497	507
Total Assets	12,590	13,331	15,868	19,638
Equity Capital	144	144	144	144
Reserves & Surplus	2,699	2,942	3,422	4,137
Shareholders' funds	2,843	3,086	3,566	4,281
Borrowings	9,540	10,017	12,020	15,025
Current liabilities	109	120	143	172
Total Liabilities	12,590	13,331	15,868	19,638

Source: Company, Sushil Finance Research

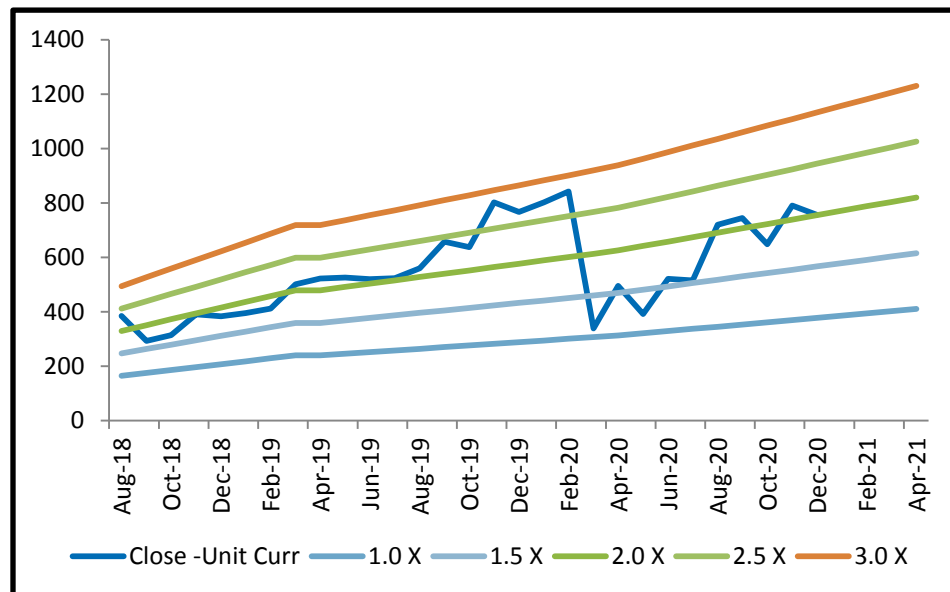
FINANCIAL RATIO STATEMENT

Y/E Mar.	FY20	FY21E	FY22E	FY23E
Profitability Ratios				
EPS	23.0	16.9	34.3	50.6
Earnings growth (%)	2.9%	-26.6%	103.5%	47.3%
CEPS	24.7	18.4	35.9	52.2
PPP / Share	48.5	54.2	64.3	85.5
ROAA (%)	3.36%	1.88%	3.39%	4.10%
ROE (%)	13.2%	8.5%	15.4%	19.1%
Efficiency Ratios (%)				
C-I Ratio	39.9%	43.0%	44.2%	41.8%
Other Inc/Total Inc	1.5%	1.0%	1.0%	0.9%
Cost Asset Ratio	7.5%	4.3%	4.7%	4.7%
Asset Quality Ratios (%)				
Gross NPLs	1.3%	4.9%	4.3%	3.6%
Net NPLs	0.31%	1.30%	1.00%	1.10%
PCR (excl. Tech W/Off)	75.8%	74.6%	77.6%	70.2%
Provision/ Loans	2.14%	4.00%	1.80%	1.40%

Y/E Mar.	FY20	FY21E	FY22E	FY23E
Asset-Liab.Profile (%)				
Cap. Adequacy Ratio	23.6%	23.3%	24.5%	26.7%
- Tier I CAR	22.3%	23.3%	24.5%	26.7%
Loan Growth	68%	3%	30%	25%
B/S Growth	71%	6%	19%	24%
Spreads Analysis (%)				
Yield on Advances	18.1%	18.0%	17.9%	17.6%
Cost of funds	8.1%	7.8%	7.5%	7.2%
Net Interest Margin	11.04%	10.38%	11.00%	11.57%
Valuation				
BV / Share	190	207	240	290
Adjusted BV / Share	188	196	230	276
P/E (x)	30.2	41.1	20.2	13.7
P/PPP (x)	14.3	12.8	10.8	8.1
P/ABV (x)	3.70	3.53	3.02	2.52

Source: Company, Sushil Finance Research

P/Bv CAG



Source: Company, Sushil Finance Research

Price Movement of Credit Access Grameen



Source: Company, Sushil Finance Research , iChart.in

OUTLOOK & VALUATION

CAG is the largest microfinance in India with Gross loan portfolio of Rs.~11,200 cr. We believe CAG is best placed to grow and capture high market share on account of its strong capital base supported by strong parentage, focus on under penetrated rural areas and early stress recognition practice. Going forward, with pick up in loan growth and lower credit cost henceforth, we expect CAG to report ROA/ROE of 4.1%/19.1%. We initiate coverage with a BUY rating for target price of Rs.898 for 18-24 months

RISKS & CONCERNS

- CAG face competition from small finance banks, MFIs and Banks. Banks were indirectly participating in microfinance by giving loans to MFIs. Of late some commercial banks are also beginning to directly compete with for-profit MFIs for lower income segment customers in certain geographies
- Company has strong presence in Maharashtra, Karnataka and Tamil Nadu. In the event of a regional slowdown in the economic activity in these states, or any other developments including political unrest, disruption or sustained economic downturn that make its products in these states less beneficial, it may experience an adverse impact on our financial condition.
- Customers do not provide any collateral or security for their borrowings as the RBI has mandated that loans given by NBFC-MFIs should be collateral free. Loans typically involve a joint liability mechanism whereby borrowers form an informal joint liability group ("JLG") (typically comprising between five to ten members) and provide joint and several guarantees for loans obtained by each member of the group. There can however be no assurance that such joint liability arrangements will ensure repayment by the other members of the JLG in the event of default by any one of them

Why should we buy?

- Under penetration in rural areas is high and CAG is well positioned to grow on account of strong capital base and its growing branch network. It is spreading its network in North India, thereby diversifying its operations.
- Asset quality will be in stress in near term on account of slowdown in the economy, however as it has been observed in past, in events like demontisation, elections and floods, CAG has managed to recover due to its risk management practices.
- Loan book is likely to grow at CAGR of 18.6% in FY20-23E. More than 1/3 of branches are in new geography, while they contribute ~18% to disbursement, thereby providing opportunity to grow in future.

Rating Scale : This is a guide to the rating system used by our Institutional Research Team. Our rating system comprises of three rating categories.

Total Expected Return Matrix (Rating and Return)

BUY : Over 20%

HOLD : 0% to 20%

SELL : 0% to -20%

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Analyst Stock Ownership	No
Stock Recommended to Clients	Yes
Remuneration/Benefits received from company in 12 months	No
Merchant Banking Market Making activities / projects	No
Sushil Financial Services Pvt. Ltd and Group Companies Holding	No
Sushil Financial Services Pvt. Ltd and Group Directors Holding	No
Broking Relationship with the company covered	No