

Financials

Q2FY21 result review
and TP revision

Target price: Rs850

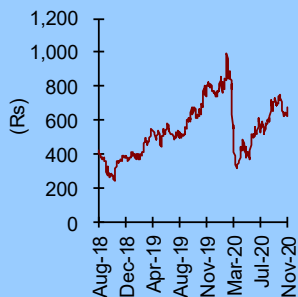
Target price revision
Rs850 from Rs820

Shareholding pattern

	Mar '20	Jun '20	Sep '20
Promoters	79.9	79.9	74.1
Institutional investors	14.3	14.6	18.8
MFs and others	5.7	5.6	6.9
FIs	8.6	9.0	11.9
Others	5.8	5.5	7.1

Source: BSE

Price chart



Listed on 22-08-2018

Research Analysts:

Renish Bhuvra

renish.bhuvra@icicisecurities.com
+91 22 6637 7465

Kunal Shah

kunal.shah@icicisecurities.com
+91 22 6637 7572

Chintan Shah

chintan.shah@icicisecurities.com
+91 22 6637 7658

INDIA

CreditAccess Grameen

BUY
MaintainCollections moderated but customer activation
remains encouraging

Rs679

CreditAccess Grameen's (CAGL) Q2FY21 collections moderated a bit with Oct'20 collections remaining flat at 89% vs 88% in Sep'20 owing to lower collections in Maharashtra at 81%; however, improving customer activation will ensure it reaches normalised collection by Dec'20. While ~8% borrowers have not paid Sep'20 dues, of which ~24% have paid in Oct'20 for CAGL, borrowers not paying since moratorium stand at ~2.5%. It remained focus on strengthening balance sheet (contingency buffer of ~3.5% of AuM & liquidity at ~15% of assets) and adopted cautious approach in growing balance sheet during Q2FY21, with improving business activities & collections it started acquiring new customers from Oct'20. Given disbursements in Oct'20 reaching pre-Covid level, it expects lower double digit AuM growth in FY21E. Adequate capital, strong liquidity & contingency buffer and improving customer activation rate will ensure CAGL emerges stronger in post Covid-19 era. Maintain BUY with a revised target price of Rs850 (earlier: Rs820) as we factor in capital infusion of Rs8bn in Oct'20.

- **Balance sheet strengthening continues as reflected in further provisioning towards Covid-19 and capital raising of Rs8bn via QIP.** CAGL's PAT in Q2FY21 grew 23% QoQ (down 23% YoY) mainly driven by ~53% QoQ decline in provisions to Rs0.6bn vs Rs1.4bn in Q1FY21. Net revenue fell 14% QoQ on account of – A) excess liquidity on balance sheet resulting in lower asset yields and B) ~5% QoQ decline in AuM. It continued strengthening its balance sheet as reflected in additional ~Rs0.9bn Covid-related provision, taking cumulative contingency buffer to 3.5% of AuM, and liquidity at ~15% of assets. Further, its ability to raise funds at most competitive rates reflects lender's support and its business resiliency.
- **AuM growth in Q2FY21 remained muted but with improving outlook, it expects lower double-digit growth in FY21E.** During H1FY21, it remained cautious in growing AuM and restricted disbursements to only needy borrowers. Even in Q2FY21, though fresh disbursement was up 3.5x QoQ, it was mainly towards existing customers from Kendras paying 100% on-time installments. However, with improving business activities especially in rural (~82% borrowers based in non-urban area) areas and encouraging customer activation rate, it accelerated disbursements in Oct'20 and started acquiring new borrowers. With disbursements in Oct'20 reaching pre-Covid level, it expects lower double digit AuM growth in FY21E.
- **Collection efficiency and customer activation trend encouraging.** Collection efficiency improved to 89% in Oct'20, but pace moderated sharply due to lower collections in Maharashtra at 81%. Customer activation remained strong with non-paying borrower's pool declining to 8% in Sep'20, of which, ~24% borrowers have paid in Oct'20 and only ~2.5% borrowers are not paying since moratorium. Despite encouraging collection and customer activation, it expects Covid-related credit cost to remain at 3.75-4%.

Market Cap	Rs106bn/US\$1.4bn	Year to Mar	FY19	FY20	FY21E	FY22E
Bloomberg	CREDAG IN	NII (Rs bn)	8.6	11.2	14.7	17.6
Shares Outstanding (mn)	155.5	Net Profit (Rs bn)	3.2	3.4	3.5	5.9
52-week Range (Rs)	992/314	EPS (Rs)	22.4	22.8	22.7	38.5
Free Float (%)	25.9	% Chg YoY	7.0	1.6	(0.2)	69.3
FII (%)	11.9	BVPS (Rs)	164.8	189.9	243.9	282.4
Daily Volume (US\$'000)	1,054	P/E (x)	30.3	29.9	29.9	17.7
Absolute Return 3m (%)	15.9	P/BV (x)	4.1	3.6	2.8	2.4
Absolute Return 12m (%)	(2.3)	Net NPA (%)	0.0	0.0	0.8	0.0
Sensex Return 3m (%)	10.5	RoAuM (%)	5.3	3.5	2.6	3.9
Sensex Return 12m (%)	4.8	RoE (%)	16.9	13.2	10.8	14.6

Table 1: Q2FY21 result review

(Rs mn)

	FY19 (Stand)	FY20 (Stand)	FY20 (Consol)	% YoY (Stand)	Q2FY21 (Stand)	Q2FY21 (Consol)	Q2FY20 (Stand)	% YoY (Stand)	Q1FY21 (Stand)	% QoQ (Stand)
Interest income	12,813	16,835	17,043	31%	4,707	5,760	3,916	20%	5,101	-8%
Interest expenses	4,168	5,727	5,800	37%	1,917	2,365	1,355	41%	1,851	4%
Net interest income	8,646	11,108	11,243	28%	2,789	3,395	2,561	9%	3,250	-14%
Non-interest income	20	9	12	-56%	7	10	11	-34%	6	28%
Total income	8,666	11,117	11,255	28%	2,797	3,405	2,572	9%	3,256	-14%
Employee expense	1,861	2,596	2,621	40%	725	921	654	11%	767	-6%
Other operating expenses	1,079	1,622	1,646	50%	371	515	370	0%	244	52%
Total operating expenses	2,940	4,218	4,266	43%	1,096	1,436	1,024	7%	1,011	8%
Pre provisioning profits	5,726	6,899	6,989	20%	1,701	1,969	1,548	10%	2,245	-24%
Provisions & Write offs	749	2,390	2,373	219%	653	902	277	136%	1,390	-53%
Profit/Loss before Tax	4,977	4,509	4,616	-9%	1,048	1,067	1,271	-18%	855	23%
Tax Expense	1,760	1,234	1,261	-30%	266	271	261	2%	219	21%
Profit/Loss after Tax	3,218	3,275	3,355	2%	782	796	1,009	-23%	636	23%

(Rs mn)

Disbursements for the period	82,212	1,03,890	1,22,530	26%	14,200	16,480	21,860	-35%	460	2987%
Gross loan portfolio O/S	71,593	98,960	1,19,960	38%	92,070	1,11,830	79,050	16%	96,800	-5%
Securitized / Assigned loans	1986.5	0	946	-100%	0	510	(1)		510	
Borrowings	48295	78,226	95,397	62%	78,757	94,023	55,347	42%	79,690	-1%
Cash & Other liquid balances	6,156	5,804	7,176	-6%	16,148	18,554	6,599	145%	11,725	38%

Key metrics

Active borrowers ('000)	2,429	2,831	4,055	17%	2,730	3,881	2,581	6%	2,802	-3%
Average ticket size (INR)	19,670	33,193	29,583	69%	32,154	28,815	28,977	11%	32,791	-2%
Branches (nos)	670	929	1,393	39%	929	1,388	887	5%	929	0%
Kendras (nos)	169	195	N/A	15%	195		175	11%	195	
Borrowers / loan officer (nos)	470	515	419	10%	496	401	401	24%	515	-4%
Stage 3 %	0.61%	1.57%		72 bps	1.82%	1.77%	0.52%	130 bps	1.63%	19 bps
NNPA %	0.00%	0.00%			0%	0%	0%	0 bps	0%	0 bps

ROA tree (reported) - on AUM			YoY (bps)			YoY (bps)			QoQ (bps)
Gross yield									
Portfolio Yield	20.00%	19.40%	-60 bps	19.70%	19.50%	20 bps	20.50%	-80 bps	
Finance Cost	10.40%	9.90%	-50 bps	9.60%	10.20%	-60 bps	9.40%	20 bps	
Nil	12.70%	12.10%	-60 bps	11.10%	12.30%	-120 bps	12.50%	-140 bps	
Operating Cost	5.00%	4.90%	-10 bps	4.60%	5.30%	-70 bps	4.10%	50 bps	
Impairment on Financial Instruments									
Taxes*	1.17%	2.86%	169 bps	2.77%	1.43%	134 bps	5.68%	-291 bps	
Return on Loans*	5.00%	3.60%	-140 bps	3.47%	5.20%	-173 bps	2.42%	105 bps	

Source: Company, I-Sec research

Quick snapshot of Madura acquisition’s impact on key business metrics

Chart 1: Madura added 21%/42% to CAGL’s FY20 standalone AuM and borrower base, respectively

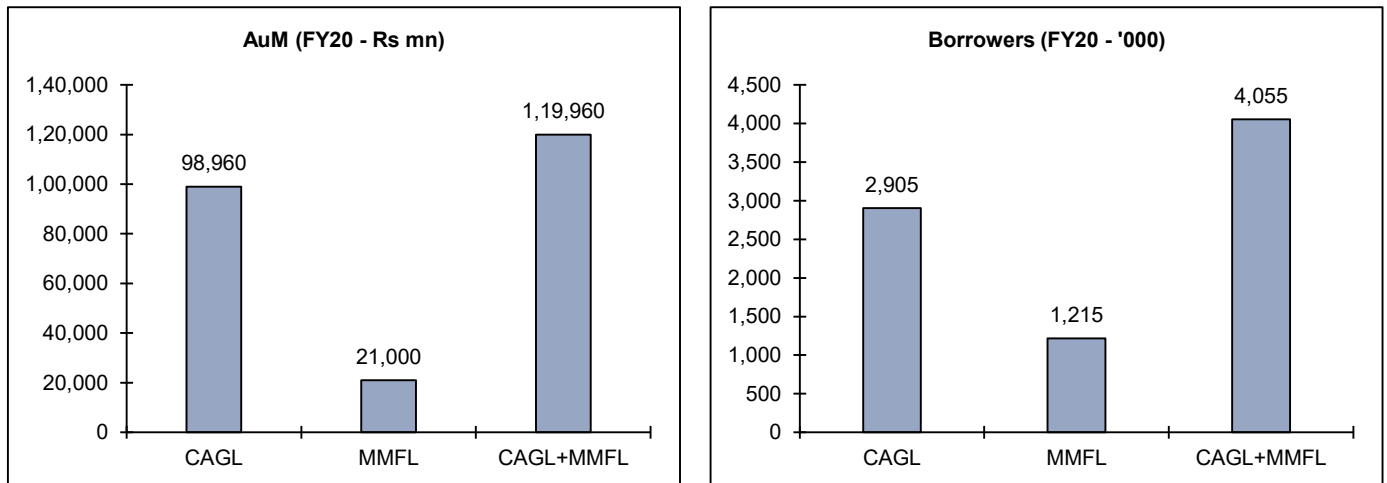


Chart 2: Significant scope exists for realigning Madura’s average ticket size. Share of Karnataka fell to 40% post Madura acquisition

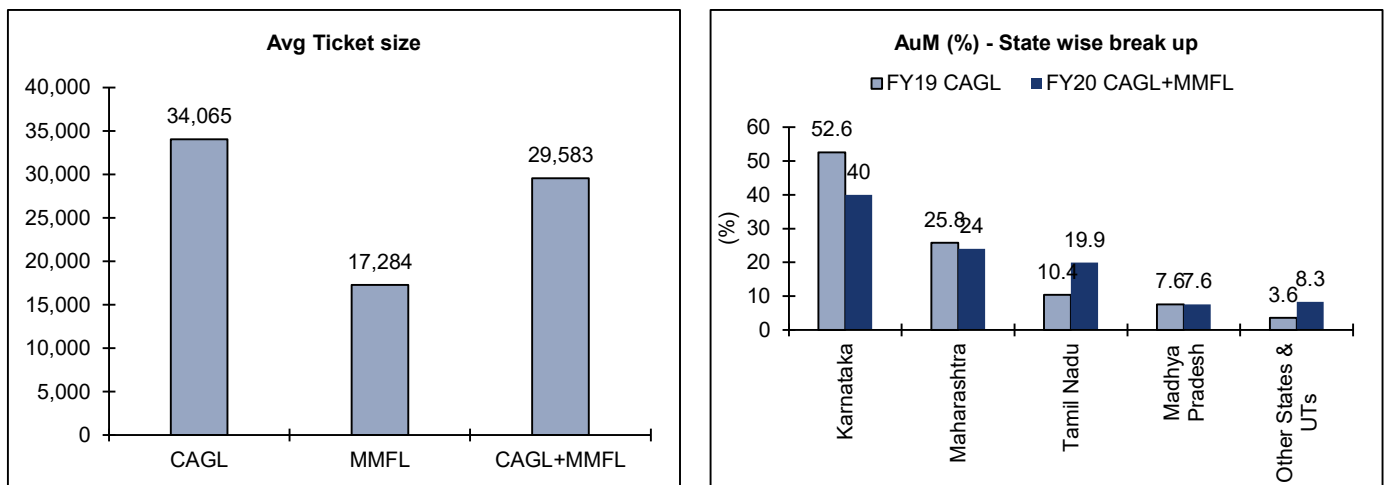
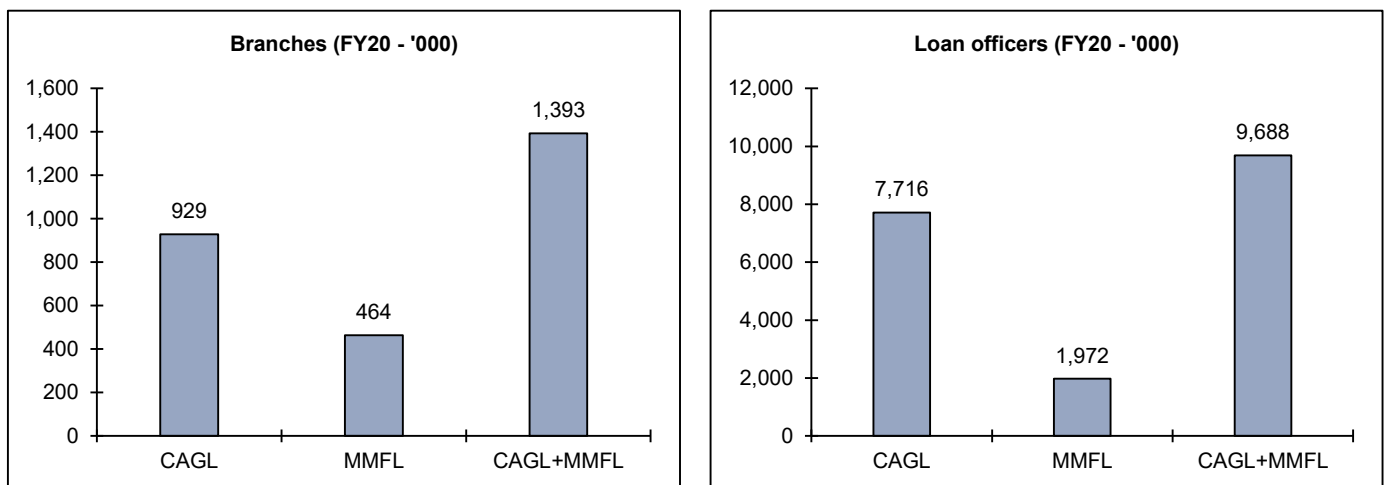
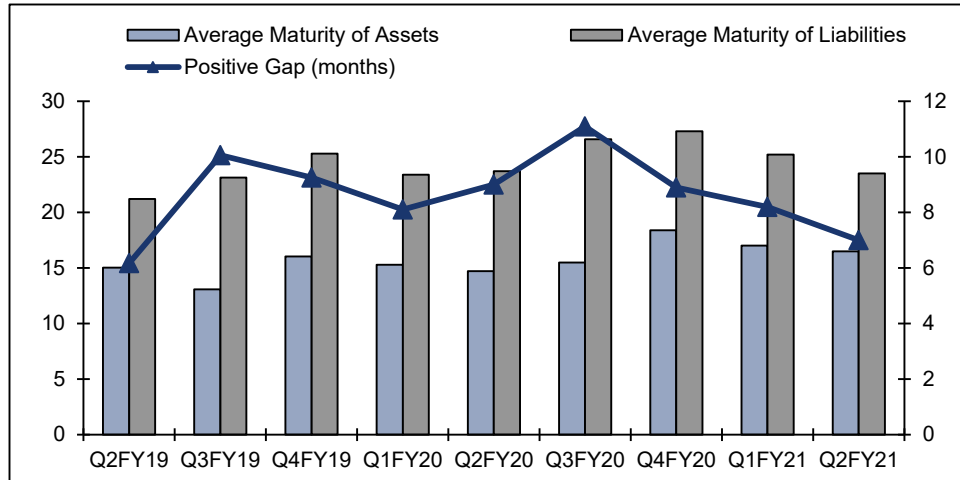


Chart 3: Significant expansion of business infrastructure with Madura acquisition



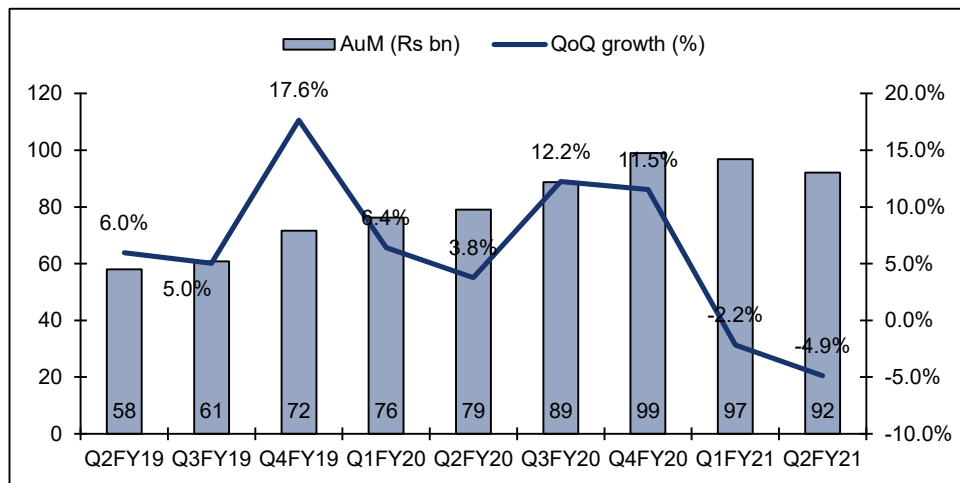
Source: Company, I-Sec research

Chart 4: Positive ALM mismatch at highest level of ~7 months



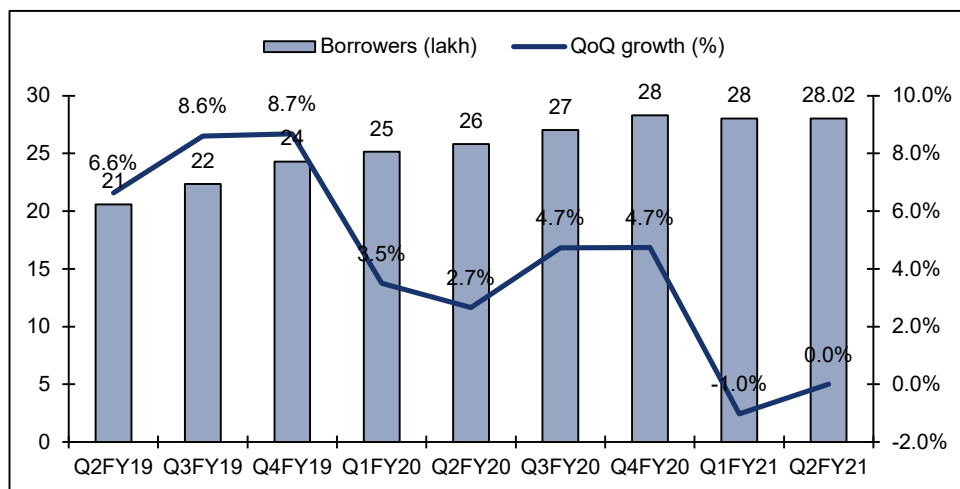
Source: Company, I-Sec research

Chart 5: AUM fell ~5% QoQ as CAGL continued to remain cautious in growing balance sheet



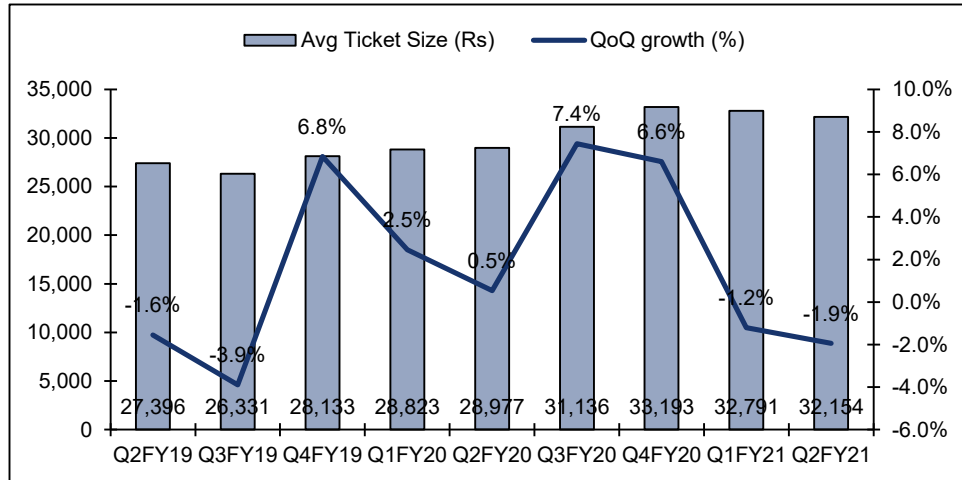
Source: Company, I-Sec research

Chart 6: Customer acquisition remains on halt in 1HFY21



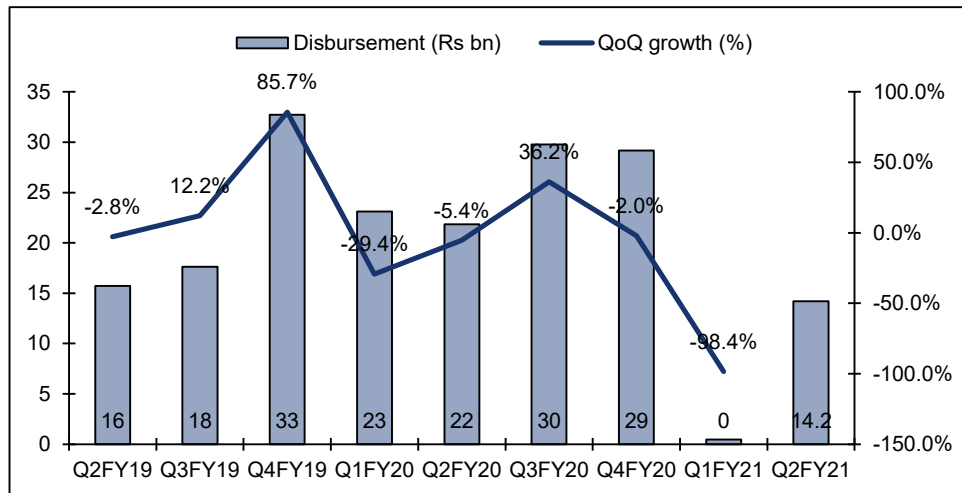
Source: Company, I-Sec research

Chart 7: Average ticket size fell 2% QoQ



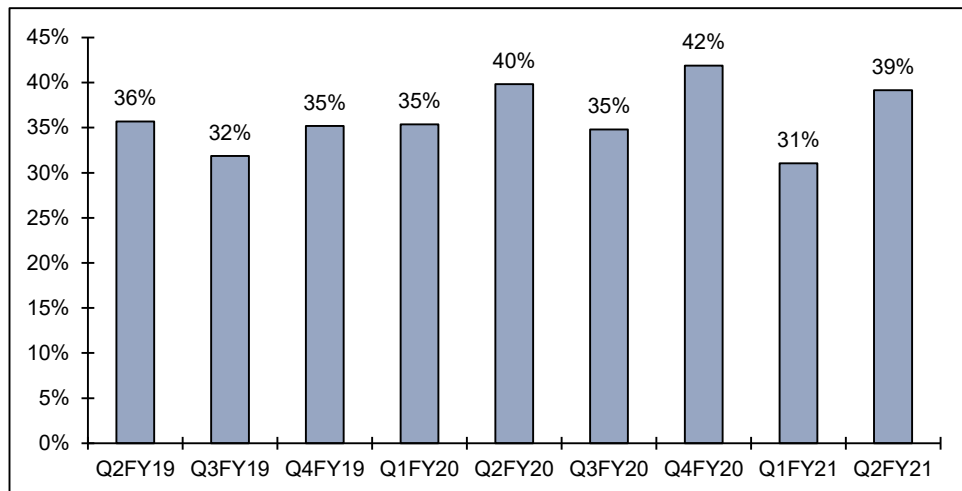
Source: Company, I-Sec research

Chart 8: Disbursement picked up in Q2FY21, Oct'20, reached pre-Covid level



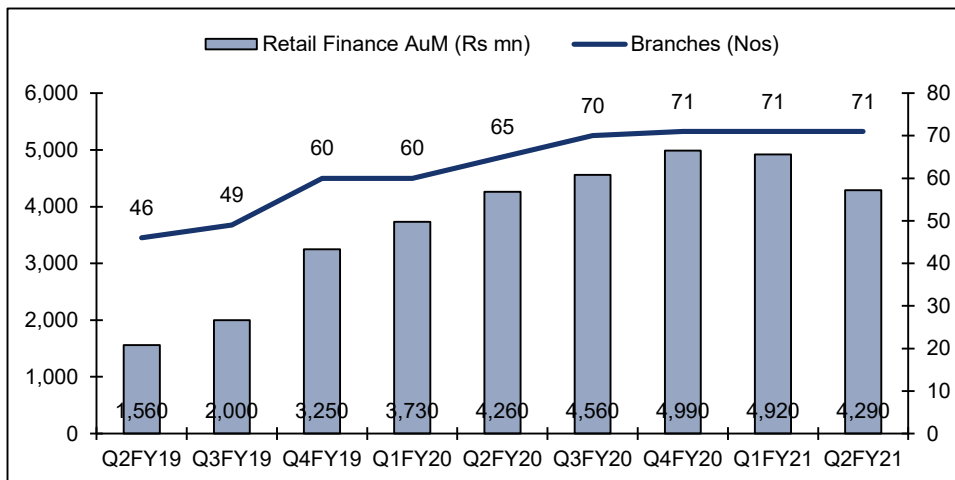
Source: Company, I-Sec research

Chart 9: Cost/income ratio gradually moving towards normalised level



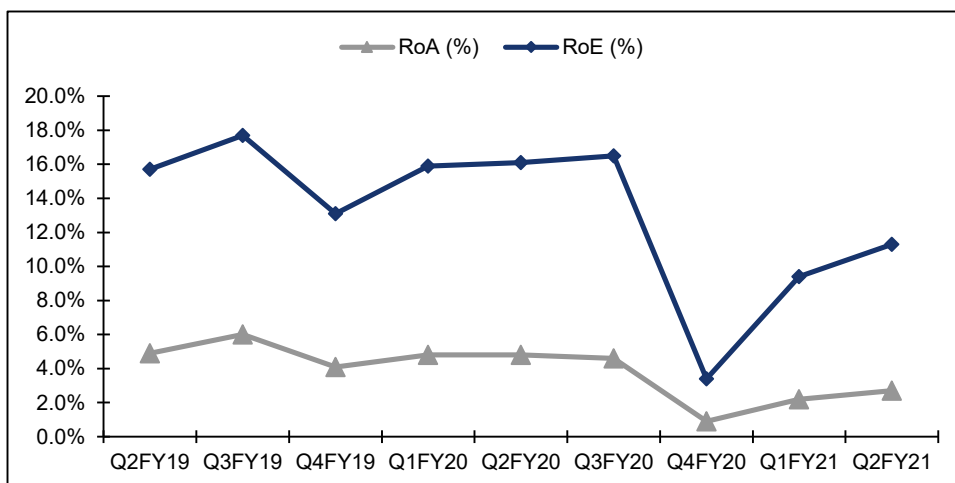
Source: Company, I-Sec research

Chart 10: Retail finance book fell 13% QoQ (now 5% of standalone AuM)



Source: Company, I-Sec research

Chart 11: Return ratios improved from lows supported by strong operating performance



Source: Company, I-Sec research

Financial summary

Table 2: Profit and loss statement

(Rs mn, year ending March 31)

Year to March	FY19	FY20	FY21E	FY22E
Operating Interest Income: (I)	12,183	16,334	23,958	27,029
Interest on Borrowings	4,168	5,800	9,466	9,899
Net Interest Income: (I) - (II)	8,655	11,243	14,699	17,609
<i>Growth in NII YoY</i>	<i>67%</i>	<i>30%</i>	<i>31%</i>	<i>20%</i>
Net Revenue (NII + Non Interest income)	8,675	11,255	14,710	17,621
Total Operating Expenses	2,940	4,266	6,047	7,295
Employee Expenses	1,861	2,621	3,740	4,595
<i>Growth in Employee YoY</i>	<i>43%</i>	<i>41%</i>	<i>43%</i>	<i>23%</i>
Other Operating Expenses	1,001	1,442	2,082	2,426
Depreciation	78	204	225	275
Operating profit	5,735	6,989	8,664	10,325
Provisions and Contingencies	749	2,373	3,945	2,335
PBT	4,987	4,616	4,718	7,990
Tax Expense	1,760	1,261	1,188	2,011
Reported Net PAT	3,227	3,355	3,531	5,979
<i>Growth YoY</i>	<i>52%</i>	<i>4%</i>	<i>5%</i>	<i>69%</i>

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

Year to March	FY19	FY20	FY21E	FY22E
Networth	23,651	27,342	37,873	43,852
Equity Shares (Nos)	143.55	143.99	155.31	155.31
Capital	1,436	1,440	1,553	1,553
Reserves & Surplus	22,215	25,902	36,320	42,299
Borrowings	48,295	95,397	99,783	1,20,205
Other Liabilities & Prov	1,628	3,157	6,104	5,921
Total Liabilities (BS)	73,574	1,25,896	1,43,760	1,69,978
Advances (on book AUM)	66,028	1,10,989	1,23,093	1,50,357
Cash & Bank	6,156	7,176	12,938	11,898
DTA	431	574	719	850
Fixed Assets	271	863	906	951
Other Assets	687	6,293	6,104	5,921
Total Assets (BS)	73,574	1,25,896	1,43,760	1,69,978

Source: Company data, I-Sec research

Note – From FY20 onwards all numbers are on consolidated basis.

Table 4: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Growth ratios (%)				
Net Interest Income	67.4	29.9	30.7	19.8
Opex	44.8	45.1	41.7	20.6
PPoP	82.2	21.9	24.0	19.2
PAT	51.9	4.0	5.2	69.3
AuM	43.9	67.6	10.3	22.1
Key ratios (%)				
Yield on AuM (on balance sheet)	21.2	18.5	20.5	19.8
Portfolio yields (On+Off balance sheet)	21.0	17.6	0.0	0.0
Cost of Borrowing	10.0	8.1	9.7	9.0
NIM	15.1	12.7	12.6	12.9
NIM (ex DA income)	14.1	12.1	0.0	0.0
Credit cost	1.3	2.7	3.4	1.7
Cost/Income ratio	33.9	37.9	41.1	41.4
Asset quality (%)				
GNPA	0.6	0.7	2.2	1.8
NNPA	0.0	0.0	0.3	0.0
PCR	100	100	70	100
Per share data Rs)				
Diluted EPS	22.4	22.8	22.7	38.5
EPS growth (%)	7.2	1.6	-0.2	69.3
Book value per share	164.8	189.9	243.9	282.4
BVPS growth (%)	16.5	15.3	28.4	15.8
Valuation				
P/E (x)	30.3	29.9	29.9	17.7
P/B (x)	4.1	3.6	2.8	2.4
RoA decomposition				
Yield on AuM	19.5	16.4	17.8	17.2
Other income	1.1	0.7	0.2	0.3
Cost of Funds (Interest Expended/Avg. BS)	6.7	5.8	7.0	6.3
Net Interest Margin	13.9	11.3	10.9	11.2
Operating Costs (Opex/ Avg. Total Assets)	4.7	4.3	4.5	4.7
Cost to Income (Opex/Net Revenue)	33.9	37.9	41.1	41.4
Credit cost	1.2	2.5	3.1	1.6
RoA	5.2	3.4	2.6	3.8
RoE (Avg. networth)	17.0	13.2	10.8	14.6
Leverage (BS/NW)	3.11	4.60	3.80	3.88
Capital Adequacy				
Total CAR	35	24	29	27
Tier 1	34	22	29	27
Tier 2	1	1	0	0
TRWA/Closing AUM	103	102	102	102
Tier 1 as % of Networth	100	99	95	95

Source: Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

*New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return*

ANALYST CERTIFICATION

I/We, *Renish Bhuva, CFA (ICFAI); Kunal Shah, CA; Chintan Shah, CA;* authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.