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Financials

Q4FY21 result review and TP revision

Target price: Rs765

Target price revision

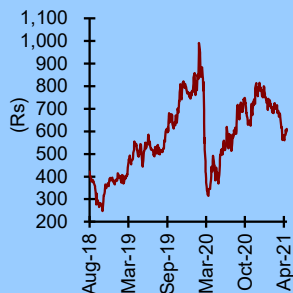
Rs765 from Rs850

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	74.1	74.0	74.0
Institutional investors	18.8	18.9	19.1
MFs and others	6.9	6.8	6.5
FII	11.9	12.1	12.6
Others	7.1	7.1	6.9

Source: BSE

Price chart



Listed on 22-08-2018

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INDIA

ICICI Securities

CreditAccess Grameen

BUY

Maintain

Precautionary provisions impacted earnings; current valuation captures near-term concerns

Rs608

CreditAccess Grameen's (CAGL) Q4FY21 financial performance must be seen with respect to the management's precautionary stance – writing-off loans worth Rs2.8bn, recognising the entire restructuring pool of Rs0.7bn (0.7% of loans) as stage 3 & providing ~70% on that pool and creating covid buffer of ~Rs1.1bn (0.9% of loans) to cushion earnings from the adverse impact of the second wave. Collection continued to trend well, reaching 94% by March'21 from 91% in Dec'21; however, intermittent lockdowns/restrictions on movement in various states due to resurgence of covid cases may impact collections in Q1FY22. While we believe near term asset quality concern do persists, its precautionary measures in Q4FY21, strong capital position with CAR at 27% and adequate liquidity (~16.5% of total assets) will ensure RoA reviving to 3.4% by FY23. **Maintain BUY with a revised target price of Rs765 (earlier: Rs850). Key risks – A) stress unfolding higher than anticipation due to the second wave and B) delay in growth recovery.**

- **Core performance in-line.** CAGL delivered 13% YoY consolidated AuM growth and RoA of 1.8% adjusted for accelerated write-offs and additional covid buffer of Rs1.1bn created for FY22e. CAGL's disbursements in Q4FY21 were up 42% YoY driving 15% YoY AuM growth. Incremental disbursements in Q4FY21 were mostly towards IGL loans as reflected in its share increasing to 93% in March'21 from 85% in March'20. Average outstanding per borrower at ~Rs39,000 for CAGL appears higher, but considering unique borrower base at 40-43% not raising red flag. It continues to maintain higher liquidity of Rs24bn (~16.5% of assets) and declining marginal cost of borrowing reflects its ability to raise funds at competitive rates. Further, CAR at 27% will help it navigate challenging times better than peers.
- **Collections and recovery remained on track in Q4FY21, but second wave to impact Q1FY22e collections.** CAGL's collection (94% ex-arrears) as of March'21 is in-line with the management anticipation with PAR excluding Maharashtra (~4%) reaching near normalcy. Even in Maharashtra, PAR 0 fell from 19% in Dec'20 to 8.7% in March'21. Similarly, collection trend in MMFL's portfolio is also in-line with the expectation at 90% in March'21. However, resurgence of covid cases poses risk of lower collections in Q1FY22 and taking cognisance of the same, the management accelerated write-offs and build provision buffer to cushion FY22e earnings.
- **Precautionary provision in Q4FY21 to cushion FY22e earnings.** Management has conservatively up-fronted stress recognition in Q4FY21 to the extent possible as reflected in its writing-off of Rs2.8bn worth of loans, classifying restructured asset as stage 3 & providing 70% for the same and additionally creating Rs1.1bn of covid-2 buffer. Its prudent measures may help it cushion FY22e earnings to some extent. To factor in likely lower collection in Q1FY22, we increase our credit cost assumption for FY22e to 3% and accordingly cut our earnings estimates by ~35%/23% for FY22/23, respectively.

Market Cap	Rs95bn/US\$1.3bn	Year to Mar	FY20	FY21	FY22E	FY23E
Bloomberg	CREDAG IN	NII (Rs bn)	11.2	15.3	16.6	19.8
Shares Outstanding (mn)	155.6	Net Profit (Rs bn)	3.4	1.3	3.9	6.4
52-week Range (Rs)	815/370	EPS (Rs)	22.8	8.9	25.1	41.4
Free Float (%)	26.0	% Chg YoY	1.6	(60.9)	182.6	64.7
FII (%)	12.6	BVPS (Rs)	189.9	237.4	262.5	304.0
Daily Volume (US\$'000)	1,462	P/E (x)	26.3	67.4	23.9	14.5
Absolute Return 3m (%)	(15.4)	P/BV (x)	3.2	2.5	2.3	2.0
Absolute Return 12m (%)	34.6	Gross NPA (%)	0.7	4.4	3.9	2.4
Sensex Return 3m (%)	(3.4)	RoAuM (%)	3.5	1.0	2.7	3.7
Sensex Return 12m (%)	56.2	RoE (%)	13.2	4.1	10.0	14.6

Please refer to important disclosures at the end of this report

Table 1: Q4FY21 result review

(Rs mn)

	FY20 (Stand)	FY21 (Stand)	FY21 (Consol)	% YoY (Stand)	Q4FY21 (Stand)	Q4FY21 (Consol)	Q4FY20 (Stand)	% YoY (Stand)	Q3FY21 (Stand)	% QoQ (Stand)
Interest income	16,835	20,275	23,193	20%	6,071	7,239	4,609	32%	4,397	38%
Interest expenses	5,710	7,401	9,287	30%	1,860	2,373	1,676	11%	1,799	3%
Net interest income	11,125	12,875	15,320	16%	4,211	4,866	2,933	44%	2,598	62%
Total income	11,133	12,911	15,374	16%	4,229	4,889	2,934	44%	2,603	62%
Employee expense	2,596	2,996	3,800	15%	762	957	682	12%	742	3%
Other operating expenses	1,638	1,503	2,056	-8%	471	642	547	-14%	391	20%
Total operating expenses	4,235	4,499	5,856	6%	1,233	1,599	1,229	0%	1,133	9%
Pre provisioning profits	6,899	8,412	9,518	22%	2,996	3,290	1,705	76%	1,470	104%
Provisions & Write offs	2,390	6,469	7,714	171%	2,002	2,504	1,407	42%	2,424	-17%
Profit/Loss before Tax	4,509	1,943	1,804	-57%	994	786	298	233%	(954)	-204%
Tax Expense	1,234	519	490	-58%	271	223	70	285%	(238)	-214%
Profit/Loss after Tax	3,275	1,424	1,314	-57%	723	563	228	217%	(716)	-201%

(Rs mn)

Disbursements for the period	1,03,890	96,410	1,10,104	-7%	41,430	16,480	29,160	42%	40,320	3%
Gross loan portfolio O/S	98,960	1,13,410	1,35,870	15%	1,13,420	1,35,870	98,960	15%	1,02,030	11%
Securitized / Assigned loans	0	0	0		0	-	-		-	
Borrowings	78225.6	87,557	1,10,243	12%	87,557	1,08,386	77,976	12%	78,011	12%
Cash & Other liquid balances	5,804	18,746	24,844	223%	18,746	24,844	5,646	232%	13,226	42%

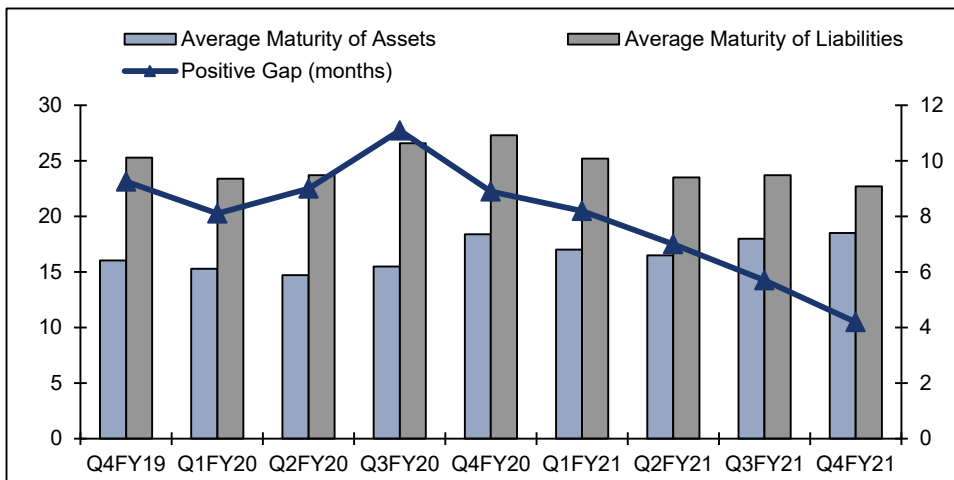
Key metrics

Active borrowers ('000)	2,831	2,805	3,912	-1%	2,805	3,912	2,831	-1%	2,768	1%
Average ticket size (INR)	33,193	38,963	34,732	17%	38,963	34,732	33,193	17%	35,441	10%
Branches (nos)	929	964	1,424	4%	964	1,424	929	4%	929	4%
Kendras (nos)	200	206	N/A	3%	206		196	5%	200	
Borrowers / loan officer (nos)	496		409	-100%	496		506	-2%	496	0%
Stage 3 %	1.57%	4.38%	4.43%	72 bps	4.38%	4.43%	1.57%	281 bps	6.84%	-246 bps
NNPA %	0.00%	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	19.40%	20.33%	-60 bps	18.60%	19.60%	-100 bps	16.30%	230 bps
Finance Cost	9.90%	9.03%	-50 bps	8.90%	9.60%	-70 bps	9.40%	-50 bps
NII	12.10%	12.26%	-60 bps	11.30%	12.00%	-70 bps	8.70%	260 bps
Operating Cost	4.90%	4.24%	-10 bps	4.60%	4.60%	0 bps	4.70%	-10 bps
Impairment on Financial Instruments	2.86%	6.03%	169 bps	7.44%	6.00%	144 bps	9.99%	-255 bps
Taxes*				1.01%	0.30%	71 bps	-0.98%	199 bps
Return on Loans*	3.60%	0.95%	-140 bps	2.18%	1.23%	0.97%	121 bps	-3.08%

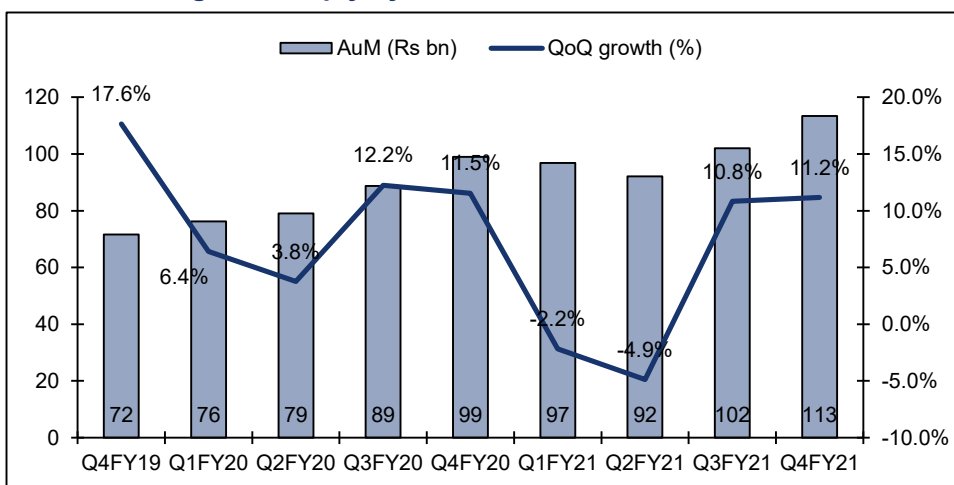
Source: Company, I-Sec research

Chart 1: Positive ALM mismatch at ~4 months



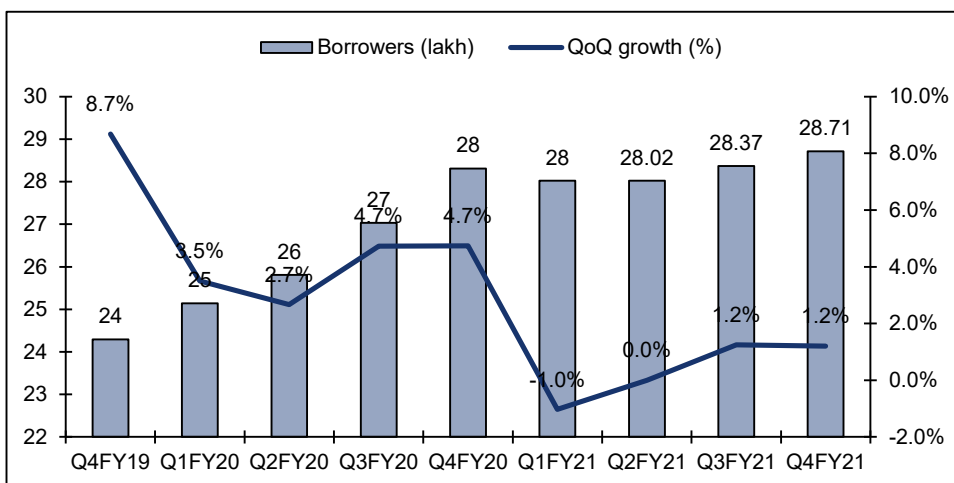
Source: Company, I-Sec research

Chart 2: AUM grew sharply by 11% QoQ



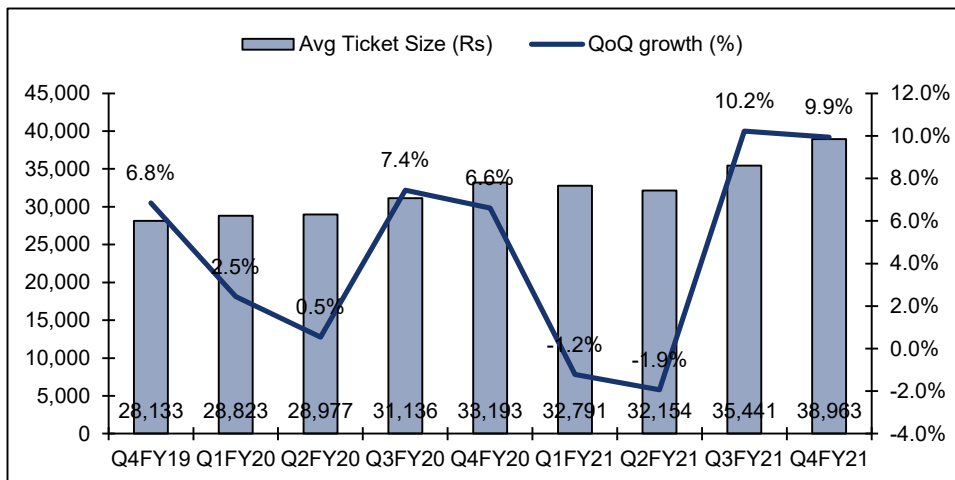
Source: Company, I-Sec research

Chart 3: Customer acquisition remained muted



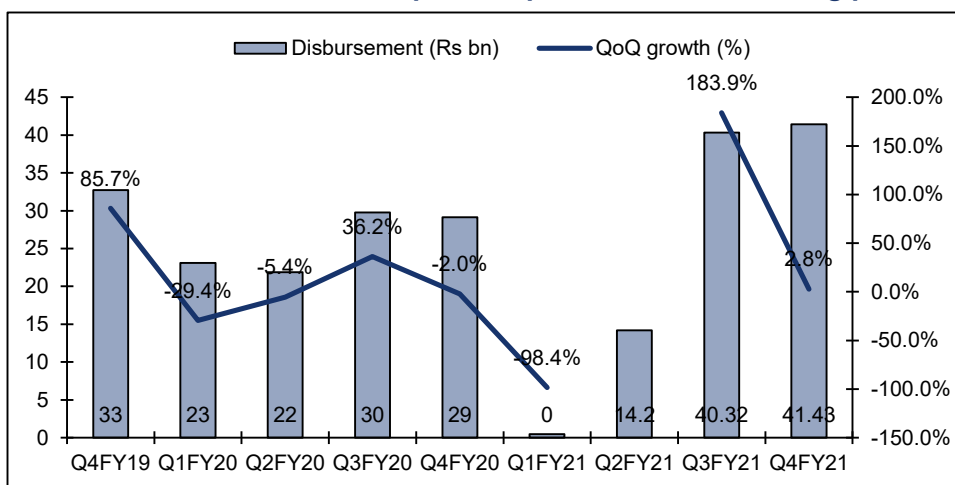
Source: Company, I-Sec research

Chart 4: Average ticket size increases by 10% QoQ



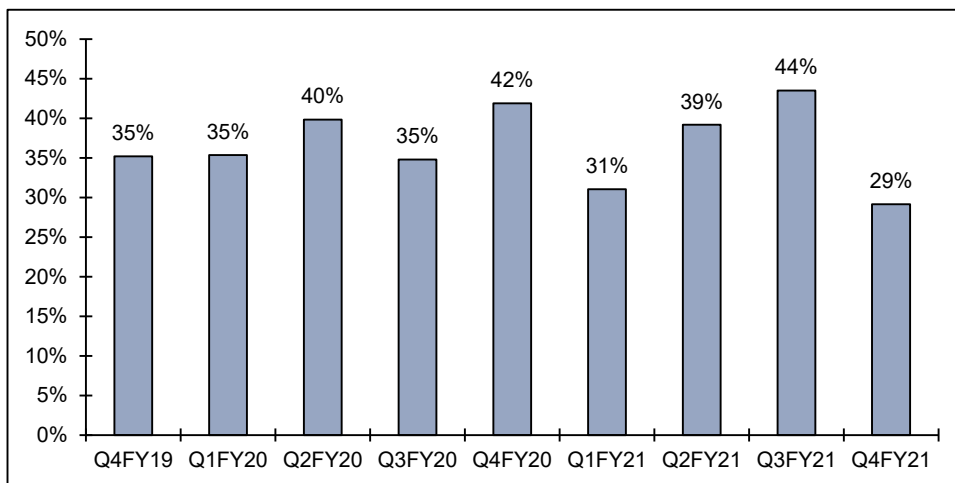
Source: Company, I-Sec research

Chart 5: Disbursement further picked up in Q4FY21, sustaining pre-covid level



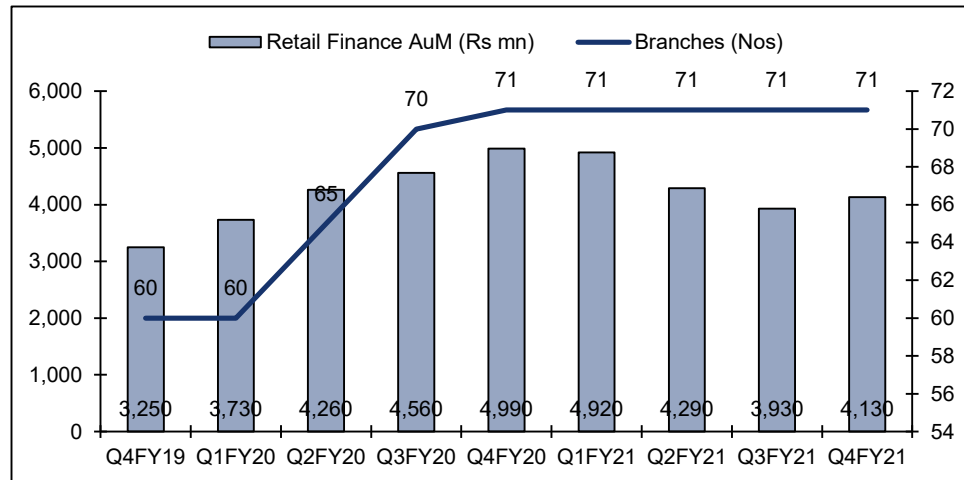
Source: Company, I-Sec research

Chart 6: Cost/income ratio fell supported by higher DA income



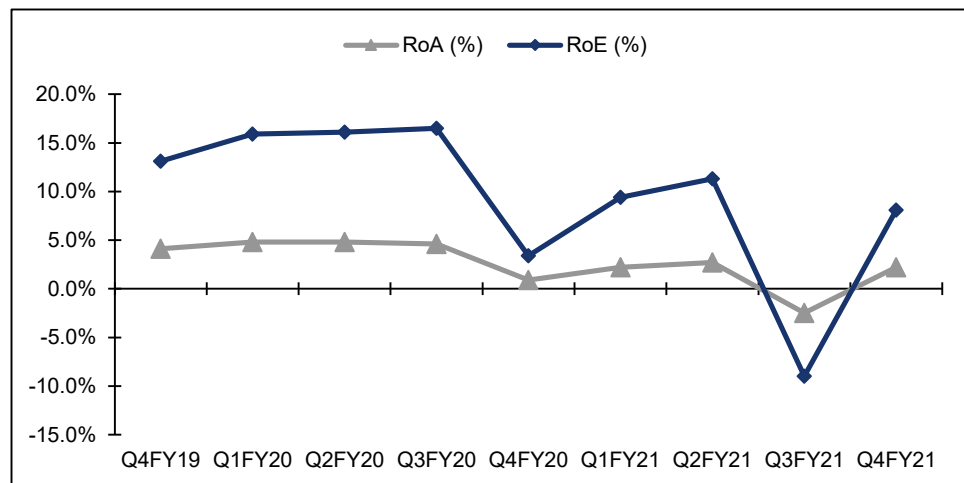
Source: Company, I-Sec research

Chart 7: Retail finance book grew 5% QoQ (now 4% of standalone AuM)



Source: Company, I-Sec research

Chart 8: Return ratios improved sequentially but continued to remain way below historical average



Source: Company, I-Sec research

Financial summary

Table 2: Profit and loss statement

(Rs mn, year ending March 31)

Year to March	FY20	FY21	FY22E	FY23E
Interest income	16,430	23,193	26,507	31,393
Interest charges	5,783	9,287	10,682	12,500
Net interest income	11,260	15,320	16,586	19,800
<i>NII growth</i>	31%	36%	8%	19%
Net revenues	11,271	15,374	16,640	19,853
Operating expense	4,283	5,856	6,953	8,428
- Employee exp	2,621	3,800	4,056	4,837
<i>YoY growth</i>	41%	45%	7%	19%
- Depreciation /amortisation	1,447	1,585	2,350	2,940
- Other opex	216	471	547	651
Pre-provision profit	6,989	9,518	9,687	11,425
Provisions	2,373	7,714	4,461	2,820
PBT	4,616	1,804	5,226	8,605
Taxes	1,261	490	1,315	2,166
PAT (excl. extraordinaries)	3,355	1,314	3,910	6,439

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

Year to March	FY20	FY21	FY22E	FY23E
Share capital	1,440	1,555	1,555	1,555
Reserves and surplus	25,902	35,360	39,270	45,710
Shareholders' fund	95,397	1,10,243	1,26,291	1,46,932
Total borrowings	3,157	3,435	7,044	6,832
Sources of funds	1,25,896	1,50,592	1,74,160	2,01,028
Loans & advances	1,10,989	1,17,205	1,46,834	1,74,832
Cash and cash equivalents	7,176	24,844	19,158	18,093
DTA	574	1,041	871	1,005
Fixed assets	317	242	254	266
Other current assets	6,839	7,261	7,044	6,832
Uses of funds	1,25,896	1,50,592	1,74,160	2,01,028

Source: Company data, I-Sec research

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

Table 4: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Growth Ratios (YoY %)				
Net Interest Income	31.2%	36.1%	8.3%	19.4%
Opex	45.7%	36.7%	18.7%	21.2%
PPoP	23.6%	36.2%	1.8%	17.9%
PAT	6.6%	-60.8%	197.6%	64.7%
AuM	67.6%	13.3%	16.2%	19.1%
Asset quality Ratios (%)				
GNPA %	0.7%	4.4%	3.9%	2.4%
NNPA %	0.0%	0.0%	0.0%	0.0%
PCR	100%	100%	100%	100%
Profitability Ratios (%)				
RoA	3.4	1.0	2.4	3.4
RoAuM	3.5	1.0	2.7	3.7
RoE	13.2	4.1	10.1	14.6
Cost/AuM	4.5	4.6	4.7	4.9
Employee/AuM	2.7	3.0	2.8	2.8
Other opex/AuM	1.7	1.6	2.0	2.1
Per share data Rs)				
Diluted EPS	22.8	8.9	25.1	41.4
EPS growth (%)	1.6%	-60.9%	182.6%	64.7%
Book value per share	189.9	237.4	262.5	304.0
BVPS growth (%)	15.3%	25.0%	10.6%	15.8%
Valuation				
P/E (x)	26.3	67.4	23.9	14.5
P/B (x)	3.2	2.5	2.3	2.0
ROA Tree				
Yield on AuM	16.5%	16.8%	16.3%	16.7%
Other income	0.6%	1.1%	0.5%	0.5%
Cost of Funds (Interest Expended/Avg. BS)	5.8%	6.7%	6.6%	6.7%
Net Interest Margin	11.3%	11.1%	10.2%	10.6%
Operating Costs (Opex/ Avg. Total Assets)	4.3%	4.2%	4.3%	4.5%
Cost to Income (Opex/Net Revenue)	38.0%	38.1%	41.8%	42.5%
Credit cost	2.5%	6.0%	3.0%	1.6%
RoA	3.4%	1.0%	2.4%	3.4%
RoE (Avg. networth)	13.2%	4.1%	10.1%	14.6%
Leverage (BS/NW)	4.60	4.08	4.27	4.25
Capital Ratios				
Total CAR	24%	27%	25%	24%
Tier 1	22%	26%	25%	24%
Tier 2	1%	1%	0%	0%

Source: Company data, I-Sec research

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