

CreditAccess Grameen

BUY

CMP Rs608

Target Rs850

Upside 40.0%

Result Highlights

CRETAG's performance in Q4 FY21 was stronger than expectations, adjusted for:

- ✓ Provisions related to accelerated write-offs (3%/2% of GLP for CAGL/MMFL),
- ✓ Management overlay created for second wave (1%/0.4% of GLP for CAGL/MMFL)
- ✓ Merger/alignment driven additional costs (employee exp. and provisioning) in MMFL. Acceleration in new borrower addition drove a robust consol. AUM growth of 10% qoq and 13% yoy (despite write-offs), and NII and PPOP grew by 53% and 93% respectively on qoq basis.
- ✓ Collection efficiency (excl. arrears) improved m-o-m and arrears collection were significant too, leading to reduction in overdue buckets (particularly in Maharashtra). Collections excl. arrears for CAGL and MMFL stood at 94% and 90% in March, which were 3-4% higher than December.
- ✓ For CAGL, there was a steep improvement in full installment paying customers during March. Substantial rollbacks led to significant reduction in PAR 30-90 bucket for both CAGL and MMFL. Both the companies are carrying an ECL cover of 5% and have Gross NPLs below 5%.

Our view – Strong operating performance in Q4, but uncertainty ahead: The collection efficiency has been impacted by 5-6% due to the recent lockdowns. Management is of the view that industry could see a credit cost of 2-3% from the second wave, much lower than the first wave. It also believes that if customer engagement starts improving from June, then there could be sufficient scope for business recovery. In view of the second wave and surrounding uncertainty, we cut earnings estimates sharply owing to lowering of loan growth expectation (18% v/s 25% earlier) and raising of credit cost assumption (3.3% v/s 1.8% earlier) for FY22. Consequently, our revised RoA/RoE projections stand at 3.5%/15% for the current year. The stock trades at 2.2x FY22 P/ABV, and valuation seems to factor sustained pressure on earnings for the next two quarters. CREDITACC is a best-in-class MFI franchise, and thus a swift peaking out of the pandemic would be a strong catalyst for the stock. Retain BUY with a lowered 12m PT of Rs850.

Exhibit 1: Result table

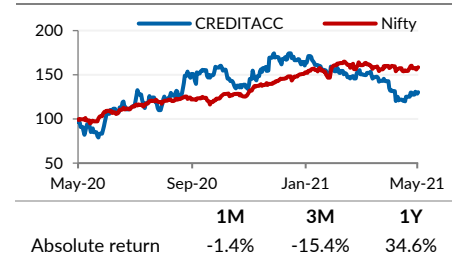
(Rs mn)	Q4 FY21	Q3 FY21	% yoy	Q4 FY20	% qoq
Total Interest Income	7,239	5,415	33.7	4,817	50.3
Interest expended	(2,373)	(2,242)	5.8	(1,750)	35.6
Net Interest Income	4,866	3,173	53.3	3,068	58.6
Other income	23	15	53.7	4	458.5
Total Income	4,889	3,188	53.4	3,072	59.2
Operating expenses	(1,599)	(1,485)	7.7	(1,277)	25.2
PPOP	3,290	1,703	93.2	1,795	83.3
Provisions	(2,504)	(2,757)	(9.1)	(1,390)	80.2
PBT	786	(1,054)	(174.6)	405	94.0
Tax	(223)	263	(184.9)	(97)	129.1
Minority Interest	206	18	1,056.7	(19)	(1,183.7)
PAT	769	(773)	(199.5)	289	166.2

Source: Company, YES Sec – Research

Stock data (as on May 06, 2021)

Sensex:	14,725
52 Week h/l (Rs)	840 / 358
Market cap (Rs/USD mn)	94664 / 1283
Outstanding Shares	156
6m Avg t/o (Rs mn):	101
Div yield (%):	-
Bloomberg code:	CRETAG IN
NSE code:	CREDITACC

Stock performance



Shareholding pattern

Promoter	74.0%
FII+DII	19.2%
Others	6.9%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	850	1,000

Financial Summary

	FY22E	FY23E	FY24E
Op. income	18,278	22,690	29,049
PPOP	11,544	14,340	18,402
Net profit	5,786	9,137	11,677
Growth (%)	340.3	57.9	27.8
EPS (Rs)	37.2	58.7	75.1
ABVPS (Rs)	274.5	333.2	408.2
P/E (x)	16.4	10.4	8.1
P/adj.BV (x)	2.2	1.8	1.5
ROE (%)	14.5	19.3	20.2
ROA (%)	3.6	4.8	4.8
CAR (%)	27.5	26.5	25.1

Δ in earnings estimates

	FY22e	FY23e	FY24e
EPS (New)	37.2	58.7	75.1
EPS (Old)	47.5	58.3	-
% change	-21.7%	0.7%	-

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CON-CALL HIGHLIGHTS

- ✓ New disbursements (from June) at ~70% of overall GLP, having collection efficiency of near 99%.
- ✓ Decline in borrower base in FY21 also due to natural attrition and accelerated write-offs - good traction in new borrower addition in H2, particularly in Q4.
- ✓ Disbursement ATS for new customers at Rs30000-35000 - borrower acquisition largely from newer states and not much in KTK and MH - reflects in much higher portfolio growth in branches added after FY20.
- ✓ Loan ATS for old customers in the range of Rs35000-50000 - 12-14% customers have o/s of >Rs50000.
- ✓ Collections improved MoM through Q4 in both CAGL and MMFL, leading to reduction in OD portfolios.
- ✓ MMFL collections have lagged CAGL due to a different collection model which is monthly.
- ✓ Excluding MH, CAGL has PAR 60/90 of 2.7%/2.3%.
- ✓ Accelerated w/off pertained to accounts which crossed 180 dpd and who were non-paying since January 2021.
- ✓ Restructuring book of Rs755mn only in CAGL - 98% collections in this portfolio during March.
- ✓ Restructuring only in cases where borrowers able to pay some part of the installments - no moratorium offered.
- ✓ Covid buffer of 1%/0.4% of GLP for CAGL/MMFL - part of the overall ECL, in the form of much higher-than-usual Stage-1 ECL.
- ✓ MMFL Q4 profits impacted by reduced lending rate + interest derecognition + increase in employee expenses + convergence of provisioning policy.
- ✓ No group meetings are happening now - co. is collecting group's repayments from one of the members.
- ✓ Not more than 25% of customers would have more than 1 loan from the co.
- ✓ Decline in collection efficiency from second half of April, about 5-6% lower than March - collection difficulty could remain high in Q1 FY22.
- ✓ If customer engagements improved from June, then remaining three quarters of FY22 will be sufficient to come-back strongly.
- ✓ Customers who consistently paid and those who came back during the first wave will put their best to navigate the second wave impact and continue paying.
- ✓ Credit cost in FY22 for the industry/co. could be at 2-3% - Covid 2.0 impact on business expected to be lower than first wave.
- ✓ On harmonization guidelines, management wants an increase in spread cap from 10% to 12%.

Exhibit 2: State-wise GLP mix

(%)	Q4 FY21	Q3 FY21	chg qoq	Q4 FY20	chg yoy
Karnataka	38.2	38.3	(0.3)	40.0	(4.5)
Maharashtra	23.4	24.8	(5.6)	24.1	(2.9)
Tamil Nadu	18.9	19.5	(3.1)	19.9	(5.0)
Madhya Pradesh	8.2	8.1	1.2	7.6	7.9
Others	11.3	9.3	21.5	8.4	34.5

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

Exhibit 3: CAGL Standalone – Key ratios

(%)	Q4 FY21	Q3 FY21	chg qoq	Q4 FY20	chg yoy
NIM	11.3	8.7	2.6	12.0	(0.7)
C/I	29.2	43.7	(14.5)	36.7	(7.5)
Opex/GLP	4.6	4.7	(0.1)	4.6	-
GNPL	4.4	6.8	(2.5)	1.6	2.8
RoA	2.2	(2.5)	4.7	0.9	1.3
RoE	8.1	(9.0)	17.1	3.4	4.7

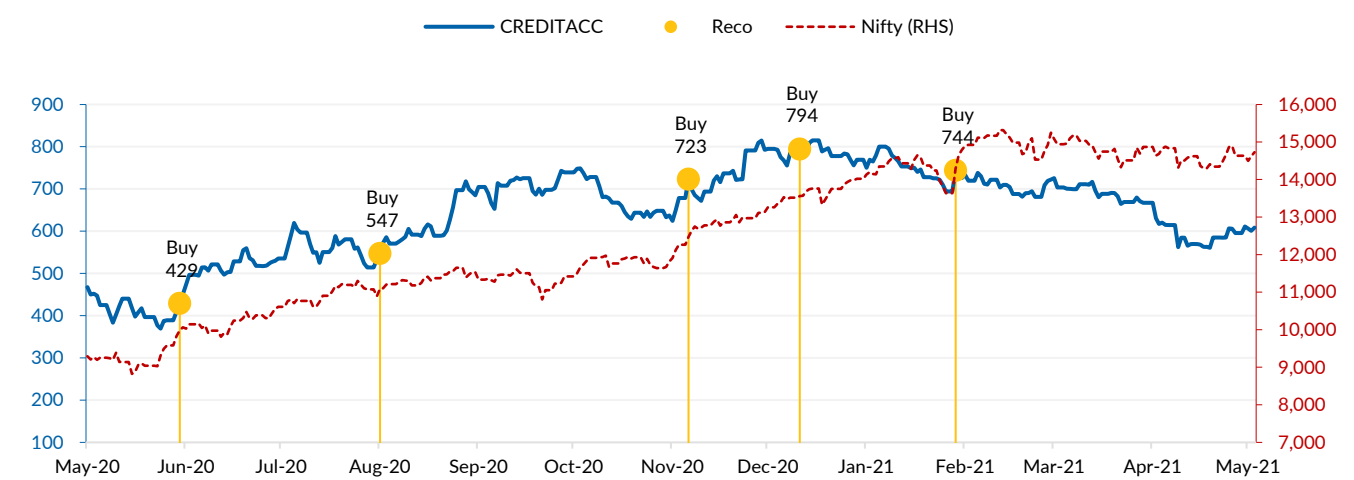
Source: Company, YES Sec – Research

Exhibit 4: MMFL Standalone – Key ratios

(%)	Q4 FY21	Q3 FY21	chg qoq	Q4 FY20	chg yoy
NIM	8.3	10.2	(1.9)	12.4	(4.1)
C/I	50.4	52.6	(2.2)	40.6	9.8
Opex/GLP	6.1	5.9	0.2	5.9	0.2
GNPL	4.7	2.8	1.9	1.6	3.1
RoA	(2.1)	(0.8)	(1.3)	4.5	(6.6)
RoE	(13.3)	(4.2)	(9.1)	25.6	(38.9)

Source: Company, YES Sec – Research

Recommendation Tracker



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