

CreditAccess Grameen

Value emerging; upgrade to BUY

CreditAccess Grameen's (CREDAG) Q4FY24 earnings were ahead of estimates, driven by steady NIMs (13.1%) and healthy loan growth (+27% YoY), partly offset by higher credit costs (240bps). Profitability (RoA/RoE of 5.7%/25%) remained strong on the back of healthy risk-adjusted NIMs and continued efficiency gains. Borrower addition continued to gain traction (+15.3% YoY) and is likely to drive loan growth during FY25-FY26E. CREDAG's conservative underwriting and a calibrated approach to building scale have translated into strong cross-cycle profitability and growth outcomes. The recent stock price correction since our [Jan-24 downgrade](#), along with a steady FY25/FY26 outlook, makes risk-reward attractive. We upgrade CREDAG to BUY from ADD with a revised RI-based TP of INR1,920 (implying 3.1x Mar-26 ABVPS).

- **Steady NIMs despite moderation in incremental yields:** CREDAG's NIMs remained steady despite the 50bps rate cut during the prior quarter. This is largely on account of the decline in marginal cost of funds in a tight liquidity environment, benefitting from an optimised borrowing mix (increasing share of low-cost domestic bank borrowings). CREDAG's recent ratings upgrade to AA- is likely to mitigate the industry-wide rise in funding costs.
- **In-line loan growth:** Loan growth (+27% YoY) moderated (9MFY24: +31.5%) along expected lines, with moderation in disbursement growth (+12.3% YoY). Incremental loan growth is likely to be driven by borrower additions (+15.0% YoY) on the back of expansion of the distribution network and improvement in branch/employee throughput metrics, which has headroom to catch up with peers. Further, the uptick in retail finance segments is likely to support medium-term loan growth. We factor in ~24% AUM CAGR for FY25-FY26E.
- **Credit costs likely to witness further uptick:** CREDAG's credit costs for FY24 were at ~200bps and are likely to inch upwards during FY25-FY26E. This is largely due to higher provisioning for loans outside the core states, which are likely to witness sharper growth. Further, the moderation in group lending behaviour (industry-wide) is likely to drive higher steady-state credit costs. However, CREDAG's risk-based pricing in these geographies is likely to offer some respite.
- **Value emerging despite headwinds; upgrade to BUY:** As highlighted in our [Company update](#), peak profitability for most MFI players is likely behind during FY24. We expect CREDAG's near-term AUM CAGR to moderate to ~24%, while RoEs are expected to remain healthy at ~23%. However, the recent stock price correction is factoring in these headwinds, with a favourable risk-reward ratio, driving our BUY rating.

Financial Summary

(INR bn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY25E	FY26E
NII	8.8	6.2	42.3	8.0	9.7	31.7	40.1	50.1
PPOP	6.8	5.0	35.8	6.0	13.4	23.9	30.0	37.3
PAT	4.0	3.0	33.9	3.5	12.3	14.5	17.5	21.7
EPS (INR)	24.8	18.6	33.4	22.1	12.4	90.7	109.6	135.9
ROAE (%)						24.7	23.5	23.0
ROAA (%)						5.7	5.3	5.3
ABVPS (INR)						382.7	489.2	622.8
P/ABV (x)						3.7	2.9	2.3
P/E (x)						15.6	12.9	10.4

Source: Company, HSIE Research

BUY

CMP (as on 7 May 2024)	INR1,421
Target Price	INR1,920
NIFTY	22,303

KEY CHANGES	OLD	NEW
Rating	ADD	BUY
Price Target	INR 1720	INR 1920
EPS %	FY25E 2.4%	FY26E 2.8%

KEY STOCK DATA

Bloomberg code	CREDAG IN
No. of Shares (mn)	159
MCap (INR bn) / (\$ mn)	226/2,711
6m avg traded value (INR mn)	407
52 Week high / low	INR 1,796/982

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(12.1)	(15.8)	43.3
Relative (%)	(14.0)	(29.0)	22.9

SHAREHOLDING PATTERN (%)

	Dec-23	Mar-24
Promoters	66.7	66.6
FIs & Local MFs	15.8	15.8
FPIs	12.0	11.7
Public & Others	5.6	6.0
Pledged Shares	0.0	

Source: BSE

Pledged shares as % of total shares

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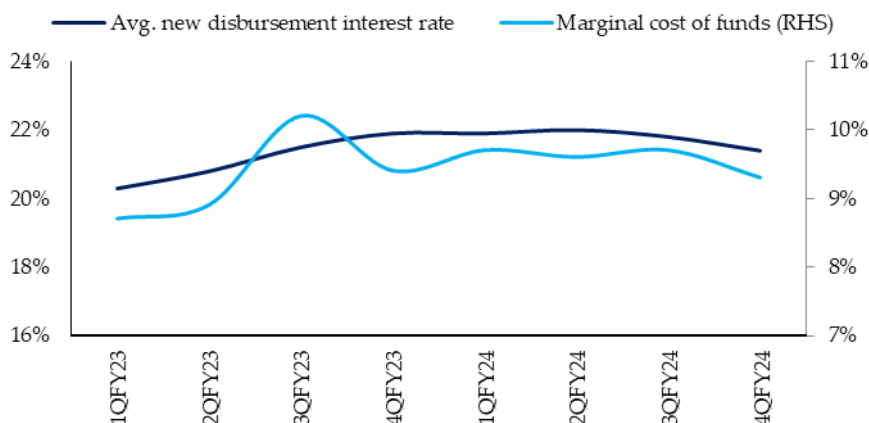
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Steady NIMs despite moderation in yields

- Moderation in yields offset by lower marginal cost of funds:** CREDAG's NIMs remained steady during Q4FY24 at 13.1% despite a rate cut of 50bps taken during Q3. This is largely on account of decline in marginal cost of funds amidst tight liquidity environment due to optimisation of borrowings mix (increasing share of low-cost of domestic bank borrowings). CREDAG's recent ratings upgrade to AA- is likely to further mitigate the industry-wide rise in cost of funds.

Exhibit 1: Moderation in fresh disbursement yields offset by lower funding costs

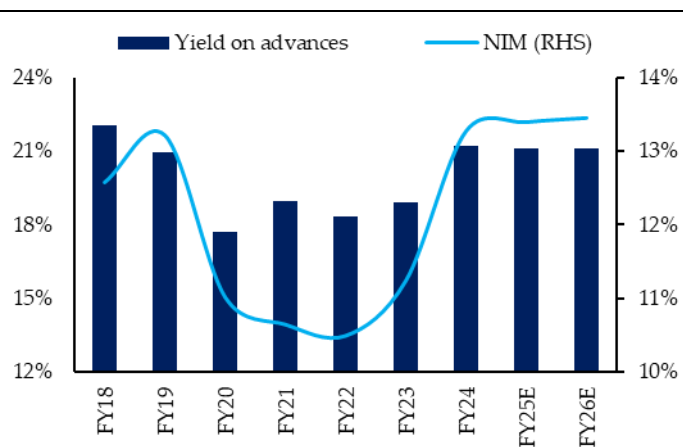


Source: Company, HSIE Research

- Risk-adjusted NIMs likely to moderate marginally:** CREDAG's NIMs are likely to remain steady with risk-based pricing outside core states (~50-75bps differential), along with expected benefit from upgrade in credit rating offsetting the rising cost of funds. However, the risk adjusted NIMs are likely to witness marginal moderation on account of expected higher credit costs in newer geographies. CREDAG has been building additional provisioning buffers based on the geographical risk and customer vintage from Q2FY23.

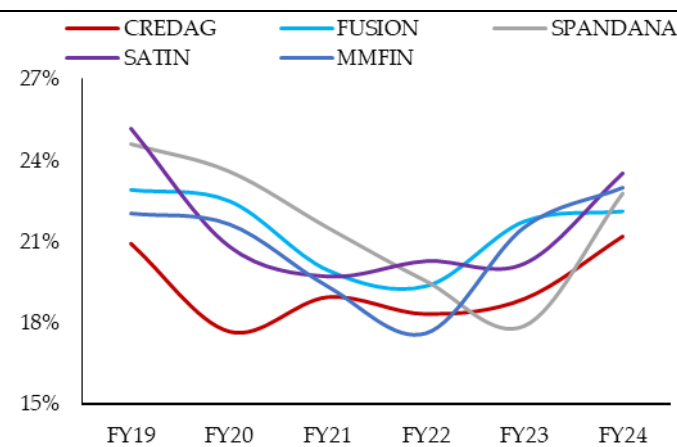
While CREDAG's pricing remains one of the lowest among peers, the company is unlikely to exercise its pricing power in the near-term.

Exhibit 2: NIMs likely to remain steady during FY25-FY26E



Source: Company, HSIE Research

Exhibit 3: CREDAG has the lowest yield on advances (calculated) among peer NBFC-MFIs



Source: Company, HSIE Research

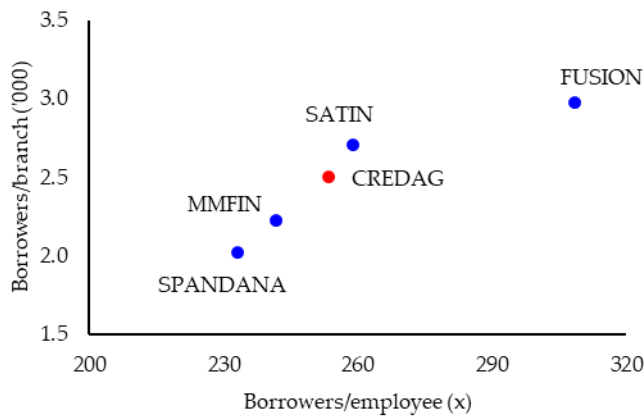
Steady loan growth in-line with industry trend:

- Multiple levers to drive steady AUM growth:** CREDAG is expected to deliver AUM growth of ~24% CAGR during FY25-FY26E amidst elevated competitive intensity. This is likely to be driven by borrower additions (+15% YoY in Q4FY24) on the back of expansion of distribution network and improvement in branch/employee throughput metrics, which remain sub-par compared to a few peers (Exhibit 4). Further, the uptick in the retail finance segments is likely to aid loan growth in the medium term.

MFI industry growth continues to remain strong (+31% YoY as on Dec-23) driven by strong demand, while CREDAG has broadly maintained its market share (~6%).

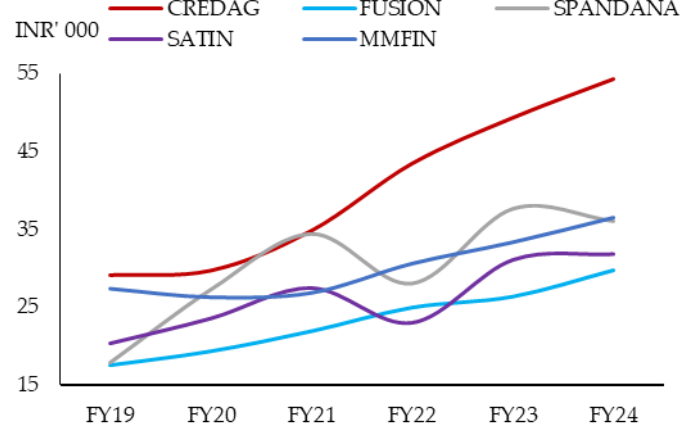
- High leverage per borrower largely a function of vintage:** CREDAG's GLP/borrower is hovering above industry average (INR 54K for CREDAG vs. INR 49K for Industry as on Dec-23) and well above NBFC-MFI peers. However, this is largely on account of increasing share of borrowers with higher vintage (~43% of borrowers > 3 years), while CREDAG continues its risk-calibrated approach towards new borrowers.

Exhibit 4: Borrowers/employee and borrowers/branch for NBFC-MFIs (Mar-24)



Source: Company, HSIE Research

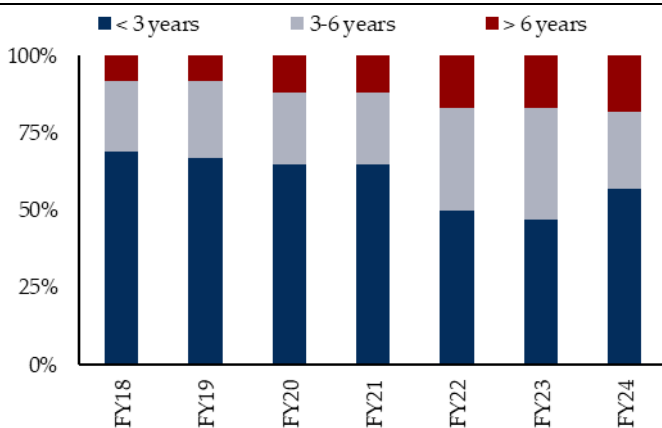
Exhibit 5: CREDAG's GLP/borrower is significantly ahead of peers



Source: Company, HSIE Research

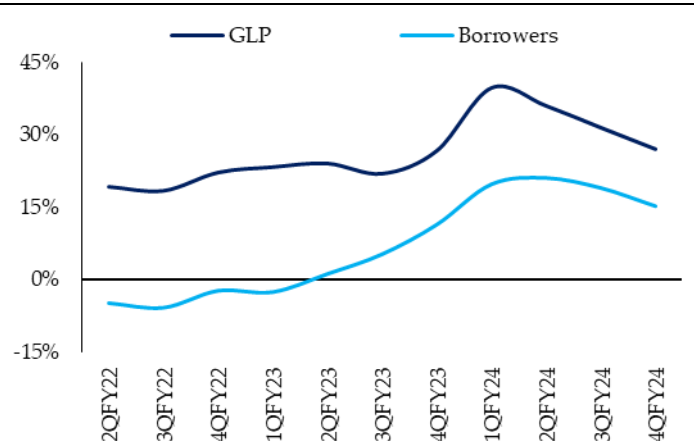
CREDAG's borrowers' growth has picked up healthy traction during FY24 and is likely to drive AUM growth during FY25-FY26E.

Exhibit 6: Increasing share of borrowers with higher vintage



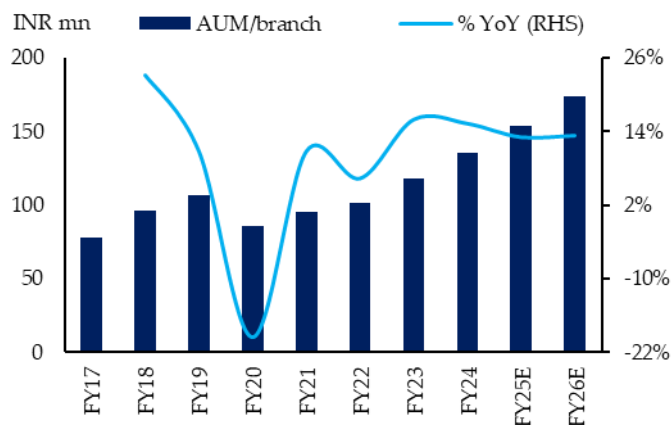
Source: Company, HSIE Research

Exhibit 7: Growth in unique borrowers witnessed strong uptick during FY24



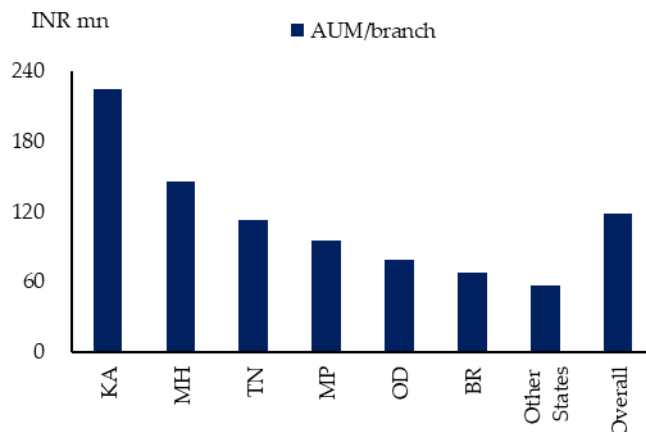
Source: Company, HSIE Research

Exhibit 8: Branch throughput to improve steadily



Source: Company, HSIE Research

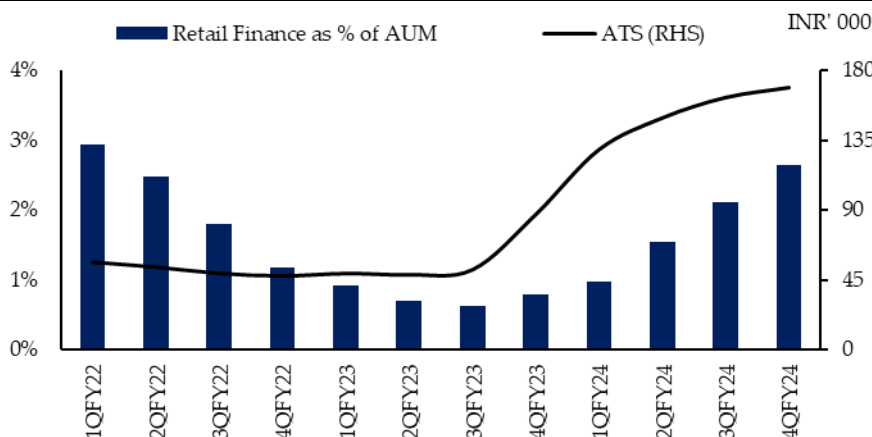
Exhibit 9: Core states have superior branch productivity (Mar-23)



Source: Company, HSIE Research

- New segments gradually picking up traction:** CREDAG's diversification into non-MFI segments such as unsecured personal loans, 2-wheeler loans, gold loans etc. is gradually gaining traction, now contributing to ~3% of AUM. While 3/4th of this portfolio is unsecured individual loans, secured loan segments are likely to witness an uptick during FY25, providing some fillip to AUM growth in the medium term.

Exhibit 10: Non-MFI loans – strong traction during FY24



Source: Company, HSIE Research

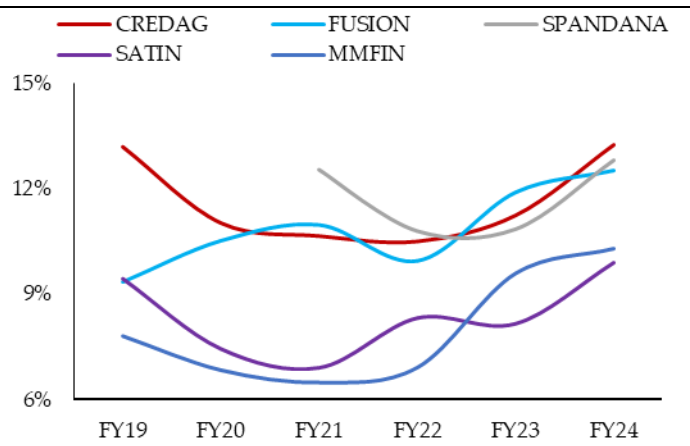
Exhibit 11: New product segments of CREDAG

Loan product		Unsecured PL	Micro LAP	Affordable HL	2-Wheeler loans	Gold loans
ATS	INR' 000	150	550	600 – 800	80	36
ROI	%	22.5%	18% - 22.5%	14% - 16%	22.5%	16% - 18%
Tenure	years	1-3 years	< 15 years	< 20 years	2-3 years	3-12 months
Branches roll out	x	192	82		55	15
GLP	INR mn	852	531	NA	37	19
Launched		Q1FY22	Q4FY22	Pilot - H2FY24	Q3FY23	Q3FY22
Criteria		2 yrs of vintage	Existing MFI customer + open market	Existing MFI customer + open market	1 yr of vintage	Existing MFI customers

Source: Company, HSIE Research

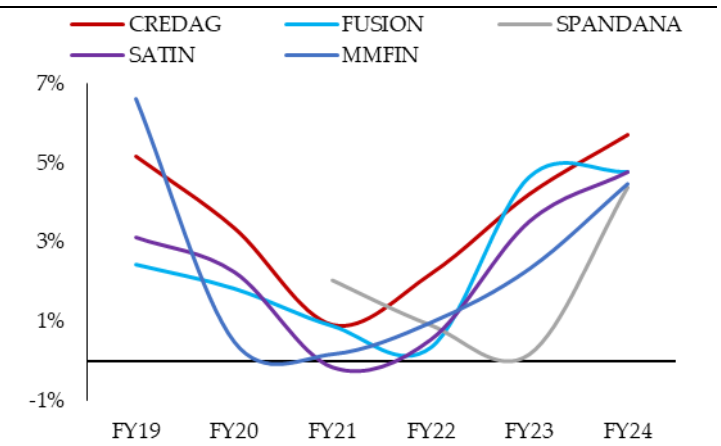
- Strong upcycle peaking out in terms of profitability:** The MFI industry has grown at a strong pace (~24% CAGR) in the past couple of years. Further, the removal of pricing caps for NBFC-MFIs, and subdued credit costs, have driven healthy profitability for most NBFC-MFIs. However, the RBI's repeated caution on supernormal NIMs, coupled with uptick in credit costs, is likely to normalise incremental RoAs. The moderation in group lending behaviour, and expansion by most lenders beyond core geographies, is likely to drive credit costs higher on a steady-state basis.

Exhibit 12: Healthy NIM (calculated) reflation for NBFC-MFIs



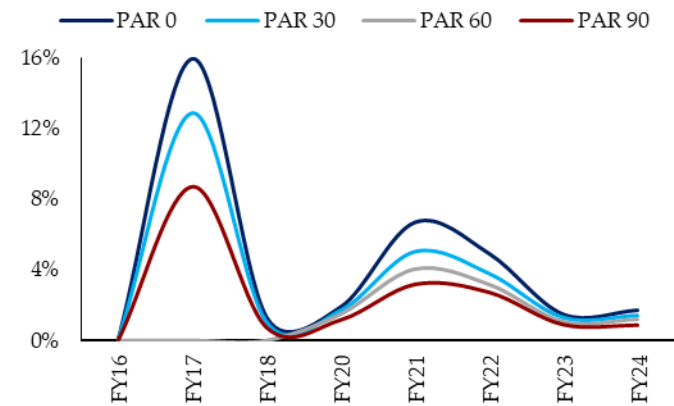
Source: Company, HSIE Research

Exhibit 13: Improved and strong profitability (RoA)



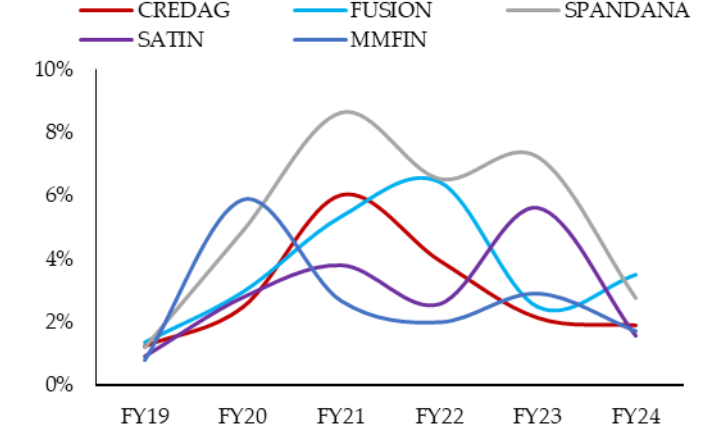
Source: Company, HSIE Research

Exhibit 14: Asset quality – marginal uptick in PAR for CREDAG



Source: Company, HSIE Research

Exhibit 15: Credit costs – benign for MFI players during FY24



Source: Company, HSIE Research

Exhibit 16: CREDAG's peer comparison (Q4FY24)

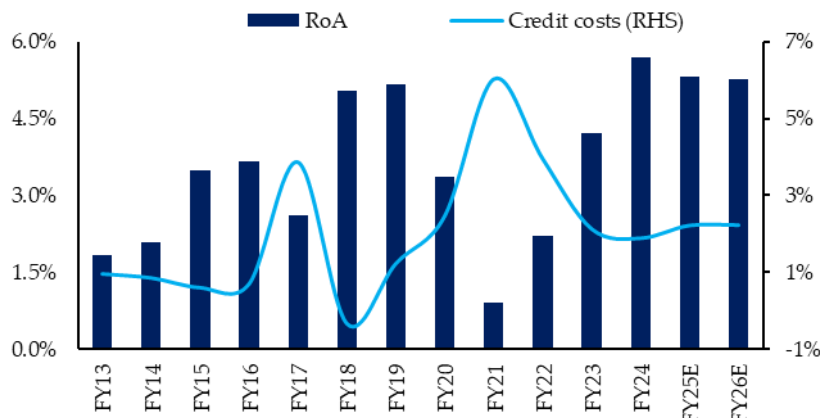
	Units	CREDAG	SPANDANA	FUSION	SATIN	MMFIN
AUM	INR bn	267.1	119.7	114.8	105.9	121.9
Disbursements	INR bn	80.5	39.7	29.5	28.1	28.9
GLP/Borrower	INR' 000	54.3	36.1	29.7	31.7	36.4
Growth (% YoY)						
AUM	%	27%	41%	23%	34%	32%
Disbursements	%	12%	30%	24%	10%	18%
Borrowers	%	15%	47%	9%	30%	20%
GLP/Borrower	%	10%	-4%	13%	2%	11%
NII	%	42%	43%	31%	50%	49%
PPOP	%	36%	2%	31%	68%	63%
PAT	%	34%	22%	16%	34%	27%
Margins						
Yield (on AUM)	%	21.8%	22.7%	20.8%	19.3%	19.1%
Yield on advances (reported)	%	21.0%	24.2%	21.8%	23.3%	24.0%
Cost of funds (calculated)	%	9.5%	11.5%	10.3%	12.6%	11.4%
Spread	%	11.5%	12.7%	11.5%	10.6%	12.5%
NIM (on AUM)	%	14.1%	13.8%	13.0%	10.1%	11.2%
Cost efficiency						
Cost-to-income ratio	%	30%	42%	37%	36%	42%
Opex-to-AUM ratio	%	4.7%	6.9%	6.1%	5.1%	5.9%
Opex/branch (annualised)	INR mn	6.1	4.8	5.3	4.3	4.8
Productivity						
AUM/branch	INR mn	136	73	96	86	81
AUM/employee	INR mn	14	8	18	8	9
# Borrowers/branch	x	2.5	2.1	3.2	2.8	2.3
# Borrowers/employee	x	0.3	0.2	0.6	0.3	0.2
Disbursals/branch (per month)	INR mn	14.3	9.2	8.3	7.4	7.2
Disbursals/employee (per month)	INR mn	1.5	1.1	1.5	0.8	0.8
Asset Quality						
GS III	%	1.2%	1.5%	2.9%	2.5%	2.3%
NS III	%	0.4%	0.5%	0.6%	0.4%	0.4%
GS II	%	0.4%	1.6%	1.2%	NA	1.1%
PCR - Stage III	%	70.8%	65.7%	79.7%	83.0%	85.0%
Credit costs	%	2.5%	3.6%	4.8%	3.5%	2.9%
ROA profile (% of avg. assets)						
Interest earned	%	20.0%	20.3%	20.2%	19.4%	19.8%
Interest expended	%	7.1%	8.0%	7.5%	9.2%	8.2%
Net interest income	%	12.9%	12.3%	12.7%	10.2%	11.6%
Non-interest income	%	1.4%	2.4%	3.5%	4.0%	3.1%
Operating expenses	%	4.3%	6.2%	5.9%	5.1%	6.2%
Pre-provisioning profit	%	10.0%	8.5%	10.2%	9.1%	8.6%
Provisions	%	2.3%	3.0%	4.2%	2.5%	2.3%
PBT	%	7.8%	5.5%	6.0%	6.6%	6.2%
ROAA	%	5.8%	4.1%	4.6%	4.9%	4.2%
Leverage (x)	%	4.3	3.6	4.1	3.9	4.2
RoAE	%	24.9%	14.7%	19.1%	19.1%	17.5%
RoAUM	%	6.7%	4.6%	4.8%	4.9%	4.5%

Source: Company, HSIE Research

Value emerging post recent correction; upgrade to BUY

CRE DAG's stock price has corrected by ~20% since our **downgrade** in Jan-24, while the operating performance has remained healthy, turning risk-reward favourable. We roll-forward to Mar-26 from Sep-25 and upgrade CRE DAG from ADD to BUY with a revised RI-based TP of INR1,920 (implying 3.1x Mar-26 ABVPS). We increase our FY25/FY26E earnings estimates by 2%/3% to factor in higher NIMs, partly offset by higher credit costs.

Exhibit 17: CRE DAG is likely to sustain robust RoA/RoE during FY25-FY26E



Source: Company, HSIE Research

Exhibit 18: Change in estimates

(INR bn)	FY25E			FY26E		
	Old	New	Change	Old	New	Change
AUM	332.7	332.2	-0.2%	412.5	412.3	0.0%
NIM (%)	12.5	13.4	88 bps	12.5	13.4	92 bps
NII	37.6	40.1	6.6%	46.7	50.1	7.2%
PPOP	27.8	30.0	7.8%	34.2	37.3	9.1%
PAT	17.1	17.5	2.4%	21.1	21.7	2.8%
Adj. BVPS (INR)	484.4	489.2	1.0%	613.4	622.8	1.5%

Source: Company, HSIE Research

Financials

Income Statement

(INR mn)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Interest earned	16,334	22,900	25,673	33,271	49,001	62,696	78,215
Interest expended	5,783	9,287	9,841	12,129	17,324	22,572	28,156
Net interest income	10,551	13,613	15,832	21,142	31,677	40,123	50,060
Other income	709	1,707	1,828	2,237	2,725	3,402	4,161
Total income	11,260	15,320	17,660	23,379	34,402	43,525	54,221
Operating expenditure	4,283	5,856	6,885	8,315	10,493	13,496	16,939
Pre-provisioning operating profit	6,977	9,464	10,775	15,064	23,910	30,030	37,282
Non-tax provisions	2,373	7,714	5,967	4,010	4,518	6,666	8,315
Profit before tax	4,604	1,751	4,808	11,054	19,392	23,363	28,967
Tax expenditure	1,261	490	1,237	2,794	4,933	5,888	7,300
Profit after tax	3,343	1,261	3,571	8,260	14,459	17,476	21,667

Source: Company, HSIE Research

Balance Sheet

(INR mn)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Share capital	1,440	1,556	1,559	1,589	1,594	1,594	1,594
Reserves and surplus	25,816	35,275	38,218	49,481	64,106	81,582	103,249
Net worth	28,432	37,964	40,878	51,264	65,700	83,176	104,843
Borrowings	95,397	109,413	129,207	163,123	218,410	278,619	341,098
Other liabilities and provisions	2,074	3,215	3,863	4,389	4,352	6,309	8,626
Total equity and liabilities	125,902	150,592	173,948	218,581	288,462	368,104	454,567
Cash and cash equivalents	7,176	24,844	17,614	14,364	13,139	17,636	19,462
Investments	456	5	5	4,545	14,389	18,296	23,162
Advances	110,989	117,205	147,653	190,433	251,050	315,467	392,072
Fixed assets	2,618	2,558	2,563	2,273	2,379	2,641	2,932
Other assets	4,663	5,980	6,112	6,965	7,504	14,064	16,939
Total assets	125,902	150,592	173,948	218,581	288,462	368,104	454,567

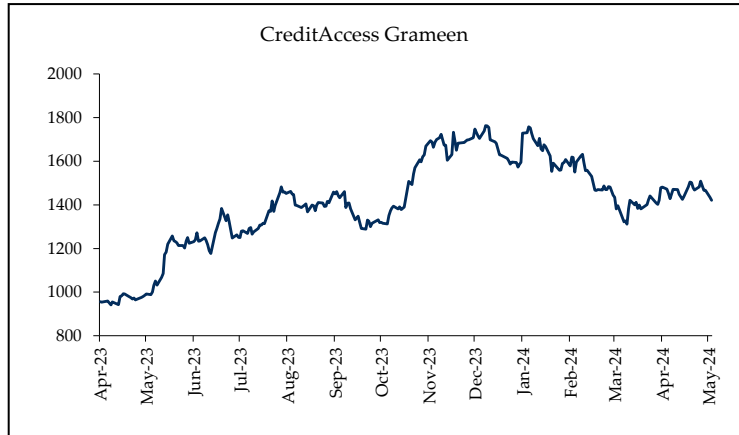
Source: Company, HSIE Research

Key Ratios

	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
VALUATION RATIOS							
EPS	23.2	8.1	22.9	52.0	90.7	109.6	135.9
Earnings Growth (%)	3.9%	-62.3%	183.3%	131.3%	75.0%	20.9%	24.0%
BVPS (ex reval.)	197.5	244.0	262.3	321.4	412.2	521.9	657.8
Adj. BVPS (ex reval. & 100% cover)	165.4	206.0	222.8	293.5	382.7	489.2	622.8
ROAA (%)	3.4%	0.9%	2.2%	4.2%	5.7%	5.3%	5.3%
ROAE (%)	12.8%	3.8%	9.1%	17.9%	24.7%	23.5%	23.0%
P/E (x)	60.9	174.6	61.8	27.2	15.6	12.9	10.4
P/ABV (x)	8.6	6.9	6.4	4.8	3.7	2.9	2.3
P/PPOP (x)	29.2	23.3	20.5	14.9	9.4	7.5	6.0
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.7%	0.0%	0.0%
PROFITABILITY (%)							
Yield on Advances (%)	17.7%	19.0%	18.3%	18.9%	21.2%	21.1%	21.1%
Cost of Funds (%)	8.0%	9.1%	8.2%	8.3%	9.1%	9.1%	9.1%
Core Spread (%)	9.7%	9.9%	10.1%	10.6%	12.1%	12.0%	12.0%
NIM (% of AUM)	11.0%	10.6%	10.5%	11.2%	13.3%	13.4%	13.4%
OPERATING EFFICIENCY							
Cost to average AUM ratio (%)	4.5%	4.6%	4.6%	4.4%	4.4%	4.5%	4.6%
Cost-income ratio (%)	38.0%	38.2%	39.0%	35.6%	30.5%	31.0%	31.2%
BALANCE SHEET STRUCTURE RATIOS							
Loan growth (%)	68.1%	5.6%	26.0%	29.0%	31.8%	25.7%	24.3%
AUM growth (%)	67.6%	13.3%	22.2%	26.7%	27.0%	24.3%	24.1%
Borrowing growth (%)	96.0%	14.7%	18.1%	26.2%	33.9%	27.6%	22.4%
Debt/Equity (x)	3.4	2.9	3.2	3.2	3.3	3.3	3.3
Equity/Assets (%)	22.6%	25.2%	23.5%	23.4%	22.8%	22.6%	23.1%
Equity/Loans (%)	25.6%	32.4%	27.7%	26.8%	26.2%	26.4%	26.7%
Total Capital Adequacy Ratio (CAR) (%)	23.6%	31.8%	26.5%	23.6%	23.1%	23.2%	24.1%
Tier I CAR (%)	22.3%	30.5%	25.9%	22.7%	22.2%	22.7%	23.7%
ASSET QUALITY							
Gross NPL (INR mn)	1,635	5,487	5,606	2,364	3,098	4,641	5,825
Net NPL (INR mn)	355	1,686	1,993	668	949	1,451	1,818
Gross NPL (%)	1.6%	7.9%	8.7%	2.1%	2.4%	2.5%	2.5%
Net NPL (%)	1.5%	4.4%	3.7%	1.2%	1.2%	1.4%	1.5%
Coverage Ratio (%)	0.4%	1.4%	1.3%	0.4%	0.4%	0.5%	0.5%
Provision/Avg. AUM (%)	73.6%	69.3%	64.7%	71.7%	70.8%	68.7%	68.8%
DUPONT ANALYSIS							
Interest earned	16.4%	16.6%	15.8%	16.9%	19.3%	19.1%	19.0%
Interest expended	5.8%	6.7%	6.1%	6.2%	6.8%	6.9%	6.8%
Net interest income	10.6%	9.8%	9.8%	10.8%	12.5%	12.2%	12.2%
Non-interest income	0.7%	1.2%	1.1%	1.1%	1.1%	1.0%	1.0%
Operating expenses	4.3%	4.2%	4.2%	4.2%	4.1%	4.1%	4.1%
Pre-provisioning profit	7.0%	6.8%	6.6%	7.7%	9.4%	9.1%	9.1%
Provisions	2.4%	5.6%	3.7%	2.0%	1.8%	2.0%	2.0%
Tax	1.3%	0.4%	0.8%	1.4%	1.9%	1.8%	1.8%
ROAA	3.4%	0.9%	2.2%	4.2%	5.7%	5.3%	5.3%
Leverage (x)	3.8	4.2	4.1	4.3	4.3	4.4	4.4
ROAE	12.8%	3.8%	9.1%	17.9%	24.7%	23.5%	23.0%

Source: Company, HSIE Research

1 Yr. Price Movement



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: >10% Downside return potential

Disclosure:

We, **Deepak Shinde, PGDM, Krishnan ASV, PGDM & Akshay Badlani, 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. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. 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.

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