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Stock Update

CreditAccess Grameen Ltd.

08-September-2021

RETAIL RESEARCH

CreditAccess Grameen Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
MFI-NBFC	Rs.682	Buy at LTP and add more at Rs.606	Rs.749	Rs.813	2 quarters

HDFC Scrip Code	CREACCEQNR
BSE Code	541770
NSE Code	CREDITACC
Bloomberg	CREDAG IN
CMP Sep 08, 2021	680
Equity Capital (Rs Cr)	155.6
Face Value (Rs)	10
Equity Share O/S (Cr)	1556
Market Cap (Rs Cr)	10,666.5
Adj. Book Value (Rs)	233
Avg. 52 Wk Volumes	2415359
52 Week High	839
52 Week Low	541

Share holding Pattern % (Jun, 2021)	
Promoters	73.97
Institutions	19.36
Non Institutions	6.67
Total	100.0

Retail Research Risk Rating:

Blue*

*** Refer at the end for explanation on Risk Ratings**

Fundamental Research Analyst
Nisha Sankhala

Our take

CreditAccess Grameen Ltd. is one of the largest NBFC-MFI accounting for 5.24% market share on consolidated basis as on Mar-21. The company has strong competitive advantages with resilient business model, robust balance sheet, expanded scale and presence post MMFL acquisition and deep rural presence with 40-45% of incremental customers being new to credit. The company has well diversified borrowing profile and has enough capital to fund the loan growth and strategy of aggressive branches expansions without any external capital infusion in the foreseeable future. It has 3.7Mn borrowers of which ~1Mn gross loan borrowers have completed 3 years with strong client retention.

We like the focus of the company on the diversification of business. For the geographic diversification, the target is to reduce the share of top 3 states from over 80% in FY2021 to around 60-65% by FY2025. It is developing new products which will help diversify and become the "Single Channel" for all lifecycle financial needs. Going forward, its future growth is likely to be driven by expansion of its successful credit delivery model into new markets and deeper penetration in the existing ones. Prolong economic slowdown poses risk to the pace of collections and business growth.

We had issued Re-Initiating Report on CreditAccess Grameen Ltd on 26th March, 2021 and recommended Buy at 618 and add on dips to Rs.566, for base case target of Rs.685 and bull case target of Rs.733 over the next two quarters. On 12th April,2021 the stock entered our average band. The Bull case target of Rs.733 was achieved on 4th June, 2021, yielding 23.8% return. Below is the link for the report:
https://www.hdfcsec.com/hsl.research.pdf/Credit%20Access%20Ltd.-%20Re-initiating%20Coverage-%2026032021.pdf

Valuation and recommendation:

CreditAccess has proven track record of delivering industry leading growth. Its AUM has grown at CAGR of 45% over FY17-21 (including MMFL). Niche positioning in deeper geographies backed by superior liquidity provides edge over other peers. With the newer branches maturing and complete integration with MMFL, the operating leverage will start kicking in. We have envisaged 29% CAGR growth for top line and 155% for bottom line (lower base), while loan book is estimated to grow at 20.2% CAGR over FY21-23E. Conservative stance in provisioning and impairment recognition has helped maintain high ECL provisions. We feel that the asset quality will start recovering from

H2GF22 onwards with upside risk from COVID third wave. RoAA is estimated at 4.7% for FY23. Our assigned multiple reflects Credit Access' high cross-cycle potential RoE and a relatively conservative approach to an inherently risky business. The stock at LTP is trading at 2.1x FY23EABV. We believe that the stock will keep getting premium valuations due to its niche retail book, industry leading growth and superior return ratios. We believe that investors can buy CreditAccess Grameen Ltd at LTP of Rs.682 (2.1xFY23E ABV) and add more at Rs.606 (1.9xFY23E ABV) for the base case fair value of Rs.749 (2.35xFY23E ABV) and for the bull case fair value of Rs.813 (2.55xFY23E ABV) over the next two quarters.

Financial Summary

Particulars (Rs.Cr)	Q1FY22	Q1FY21	YoY-%	Q4FY21	QoQ-%	FY20	FY21	FY22E	FY23E
NII	352.7	384.5	*-8.3*	463.7	*-23.9*	1053	1361	1797	2258
PAT	216.4	255.6	*-15.3*	329	*-34.2*	699	952	1208	1518
APAT	20.3	74.6	*-72.8*	56.3	*-63.9*	335	131	507	854
EPS (Rs)						23.3	8.5	32.6	54.9
ABV (Rs)						195.1	233.4	266.5	318.6
P/E (x)						29.4	80.5	21.0	12.5
P/ABV (x)						3.5	2.9	2.6	2.1
RoAA (%)						3.4	1.0	3.2	4.7

(Source: Company, HDFC sec)

Recent Developments

Q1FY22 Result Update

The pandemic-induced lockdown and the company's cautious stance on lending during the period have impacted the business growth during the quarter. The company has reported 8% YoY growth in consolidated AUM, while NII declined by down 8% YoY/24% QoQ to Rs.353cr. Operating profit also de-grew by 15% YoY on back of higher opex. Net Profit declined by 73% YoY to Rs 20.3 Cr on account of higher provisions (Rs.188 cr) and excess liquidity maintained in the wake of unprecedented situation. Disbursals declined by ~77% sequentially, while the number of borrowers fell 6% YoY due to write-offs. The average outstanding per borrower increased by ~15% YoY to Rs.33K, as new customer acquisitions remained muted.

As the economic activity started picking up in July-21, the company has also observed recovery in many aspects of business. Collections gradually picked up in early Jun-21 and gained momentum in Jul-21. Disbursement run-rate got normalised in July-21. The company has opened 66 branches across newer markets in Jul-21.

August Monthly Business update

CreditAccess standalone GLP grew 18.8% YoY and 5.0% QoQ to Rs. 11,155Cr while MMFL GLP grew by 6.9% YoY and 3.2% QoQ to Rs. 2104Cr. CreditAccess Disbursements grew 200.0% YoY and 7.3% QoQ to Rs. 1188Cr while MMFL disbursement grew by 63% YoY and -4.6% QoQ to Rs. 145Cr. CreditAccess branch network expanded from 964 in Mar-21 to 1,067 in Aug-21, with focus on newer geographies while MMFL branch network stood at 460. There has been a MoM improvement in Collection efficiency to 92.5% v/s 83% in July ’21.

Strong growth in disbursements resulted in the GLP growth pick-up. GLP stood at Rs 11,155 Cr (+18.8% YoY, +5% MoM). Improving collections have dropped the proportion of non-paying customers from 12.3% in Jun’21 to 5.6% in Aug’21. The management has indicated that slower growth in H1FY22 in MMFL was due to the transitory learning curve on account of process integration and a slight delay in training & resource availability due to COVID-19. Growth is expected to pick up from H2FY22 onwards.

Asset Quality & Collections

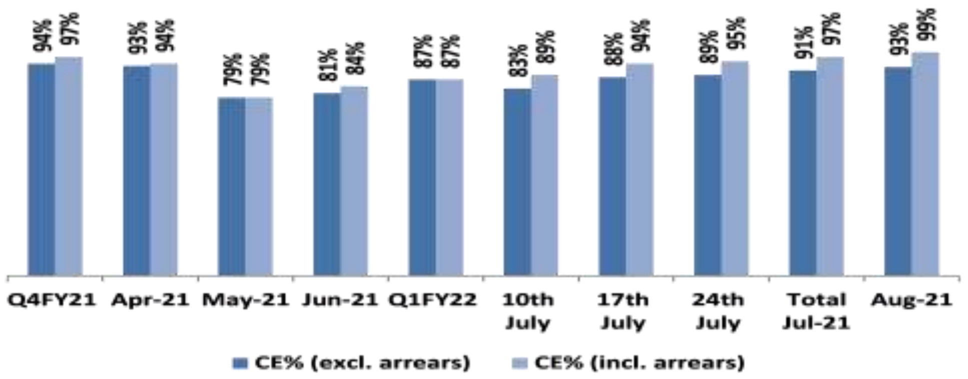
In Q1FY22, the company has reported sharp rise in consolidated GNPA at 7.56% compared to 4.43% QoQ and 1.52% YoY. Net NPA for the quarter stood at 3.3% with credit costs elevated at ~6.2% (annualised). The company deferred collections for >60% of its portfolio during May’21 on account of a rising number of infections among employees and customers. The early-bucket delinquencies, PAR-0/30 for standalone entity stood at 30.6%/13.8% vs. 5.2%/ 4.1% in Q4FY21. However, in the case of MMFL, it was flat due to a freeze on overdue days during May-21.

In July-21, Collection Efficiency improved significantly to 91% (excl. arrears)/ 97% (incl. arrears) for CreditAccess and 83% (excl. and incl. arrears) for MMFL, as compared to 81% (excl. arrears) / 84% (incl. arrears) for CreditAccess and 66% (excl. and incl. arrears) for MMFL in Jun-21. Management indicated that bulk of the early stress is likely to reverse itself on resumption of economic activity, as reflected in a 10-percentage point decline in the PAR-0 level during July-21. Also, the share of the aggregate portfolio making no payments reduced to ~6.5% of AUM during July-21 (12.9% in June-21).

Out of the key states, the management is still little worried in Maharashtra due to continuous lock down in many places for a longer period followed by flood impact in majority of southern Maharashtra.

Management further informed that they have observed changes in the customer behavior post the disruptive events demon, (elections, catastrophic activities etc) and that leads to increase in credit cost. So post COVID-19, it expects a 20-30bps increase in credit costs.

Collection Trend



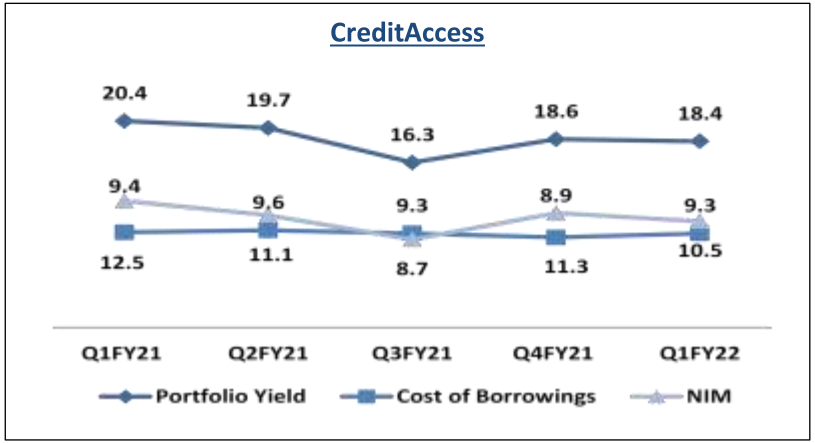
(Source: Company, HDFC sec Research)

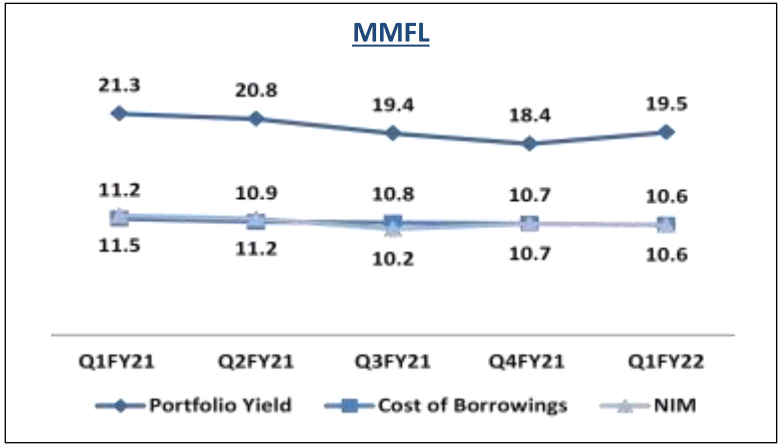
Update on MMFL merger progress

In March-20, CreditAccess had purchased 76.08% stake in Madura Micro Finance Limited ('MMFL'). MMFL has largest network in Tamil Nadu. With this merger the portfolio concentration of Karnataka was reduced and CreditAccess has become one of the largest MFIs in India. The management has informed that the merger progress with MMFL is ahead of the scheduled time line and it should be completed in FY22. As on July, integration of 410 branches has been completed, wherein the new customer acquisition is on a weekly new model. By September they expect all MMFL branches to get integrated post which, starting October even the renewal will happen in CreditAccess model.

Higher liquidity has damped the NIMs

The company was maintaining higher liquidity at Rs.2,222 Cr, which was around 16% of total assets as on June 2021. This has damped the NIMs in the near past. Cost of funds (CoF) in the last quarter rose to 9.6% vs 9.2% in Q4FY21. This was due to run-down in low-cost borrowings and it raised two long-term funds from international and domestic. But now with improving visibility on business front and normalized operations, the company should gradually bring down the liquidity to 10% by September-21 in a phased manner. This will lower the negative carry impact. The management has guided that CoF should range around 9.2% and we expect the NIMs to start recovering from Q2FY22 onwards.





(Source: Company, HDFC sec Research)

Capital adequacy and Borrowing profile

The company continues to have adequate capitalization levels backed by healthy internal accruals and equity infusions in the past (Rs.800 Cr QIP in October 2020). The consolidated capital adequacy ratio remains strong with Tier 1 and overall CAR of 27.3% and 28.6% respectively as of Q1FY22. This is one of the best in class. This shows that CreditAccess has enough capital to fund the loan growth and strategy of aggressive branches expansions without any external capital infusion in the foreseeable future. Also, it gives the company a competitive advantage over peers as strong capital buffer could provide cushion for absorbing any asset-side shocks. Further, strong parentage - CreditAccess Asia provides access to global fundraising opportunities.

The company has positive ALM mismatch across the time frames. It focuses on long-term funding with a mix of domestic & foreign sources. The diverse lenders' base includes 32 Commercial Banks, 2 Financial Institutions, 8 Foreign Institutional Investors and 2 NBFCs.

A well-diversified funding mix

Institution / Instrument Wise	CreditAccess	MMFSL
Banks – Term Loan	48.1%	50.9%
FIs – Term Loan	18.4%	13.1%
NBFCs – Term Loan	1.1%	19.6%
Domestic – NCD	8.8%	4.5%
Foreign – NCD	8.0%	1.9%
Sub-Debt	0.3%	3.7%
Foreign - ECB	2.5%	0.0%
Direct Assignment	12.8%	6.2%

Tenure Wise	CreditAccess	MMFSL
Short	17.1%	17.0%
Medium	29.3%	57.0%
Long	53.6%	26.0%

(Source: Company, HDFC sec)

Driving geographical diversification

44% of incremental branch addition over the past three years has come from new geographies which has contributed 18% of the incremental growth. Despite this conscious effort towards gradual diversification across states over the last few years, the top three states (Karnataka, Maharashtra and Tamil Nadu) contribute almost 80% of AUM. On the district level, the concentration has remained on a higher side with top 10 districts accounting for 23% of the consolidated AUM. The management has stated that they will continue to focus on geographical diversification into newer markets, with a target to reduce the share of top 3 states from over 80% in FY2021 to around 60-65% by FY2025. In addition to organic growth, the company is exploring various inorganic growth opportunities which provide access to new products or new markets, aiding to overall business diversification.

For diversification of branches, the company follows a contiguous expansion model and is very selective in entering new districts based on criteria like penetration, competitive landscape, bureau data, past asset quality experience, etc. It was noteworthy that the company has regained focus on expansion by opening 66 branches across newer markets in Jul-21. As CreditAccess continues to penetrate deeper in these new geographies and with branches maturing, we think the growth tailwind will remain strong over the medium term.

The Vision 2025

The company wants to become "Single Channel" for all lifecycle financial needs and for that it is developing various innovative products designed based on the evolving needs of the core target customer base. Projects in pilot phase include payment products, savings and investment products and insurance products. This will not only help the company in build proprietary data to understand customer holistically but it will also help them generate stable fee income complementing the overall revenue profile. Various IT initiatives have also been planned to generate operational efficiency, enterprise mobility, scalability and stability.

Risks and concerns

- The possibility of third wave and fresh lock downs could hurt the business on multiple fronts i.e. liquidity, asset quality, loan growth, collections etc. Micro finance is inherently risky business because of cash dealing and collateral free nature. Moreover the risk of default is also high because it caters to extremely low income group customers largely in the rural areas.

- High competition from banks, MFIs and especially increasing number of Small Finance Banks.

- The business is highly concentrated in the top three states, and now spreading its presence in the rest part of the country. Any political and economy uncertainty in those regions could impact the business. Even entry to newer geographies presents the risk on asset quality, as they are less discovered and the company does not have much history about the behavior of customers in those regions.

- MFI customer's loans are without any collateral or security as per the RBI regulations. Loans are routed through a joint liability mechanism whereby borrowers form an informal joint liability group ("JLG") which provides 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.

- The company has received a Demand Notice along with the assessment order on June 25, 2021 for a payment of approximately Rs.2,333 cr income tax including surcharge for the assessment year 2018-19 from the National Faceless Assessment Centre of the income tax department. The company has reviewed the said assessment order in detail along with legal expert and is fully confident of defending its legal position before the corporate tax authority and to ensure that inaccurate details of arriving at the income tax demand is rectified based on evidence. Management highlighted that Karnataka High Court has granted an interim stay on the assessment order, demand notice and computation sheet dated 25th Jun’21, issued for assessment year 2018-19 by the National Faceless Assessment Centre of the Income Tax Department.

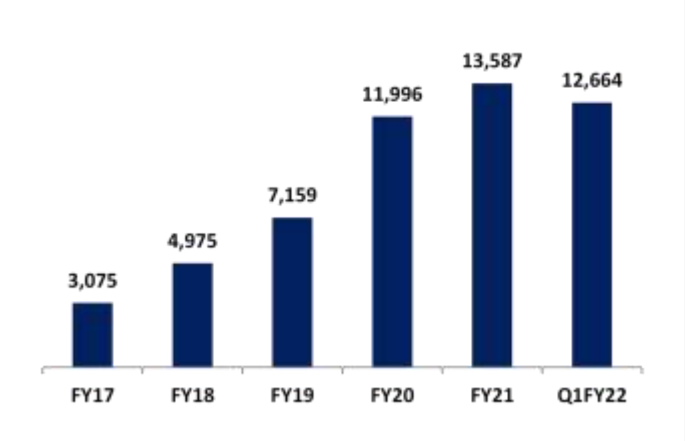
- State based MFI regulations in Maharashtra, Karnataka and Tamil Nadu and any potential loan waivers in these states would impact repayment behavior.

Company Background:

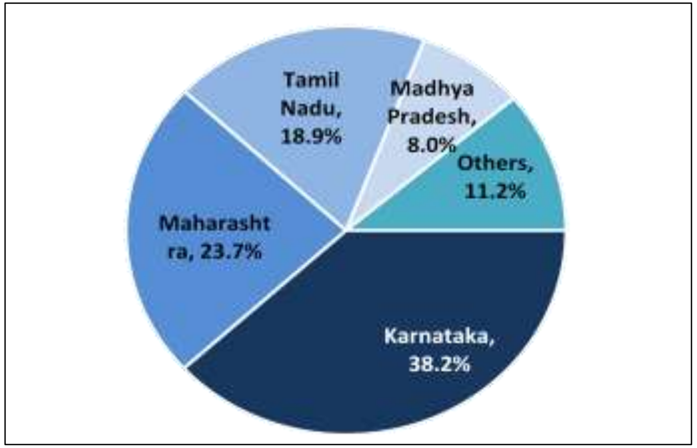
CreditAccess Grameen limited is a leading Indian microfinance institution headquartered in Bengaluru, focused on providing micro-loans to women customers predominantly in rural areas across India. The Company, on consolidated basis, is now operating in 265 districts in the 14 states (Karnataka, Maharashtra, Tamil Nadu, Chhattisgarh, Madhya Pradesh, Odisha, Kerala, Goa, Gujarat, Rajasthan, Uttar Pradesh, Bihar, Jharkhand and West Bengal) and one union territory (Puducherry) in India through 1,424 branches. The Company’s Promoter is CreditAccess India N.V., a multinational company specializing in MSE financing (micro and small enterprise financing), which is backed by institutional investors and has a micro-lending experience in India over more than a decade.

CreditAccess Grameen Ltd.

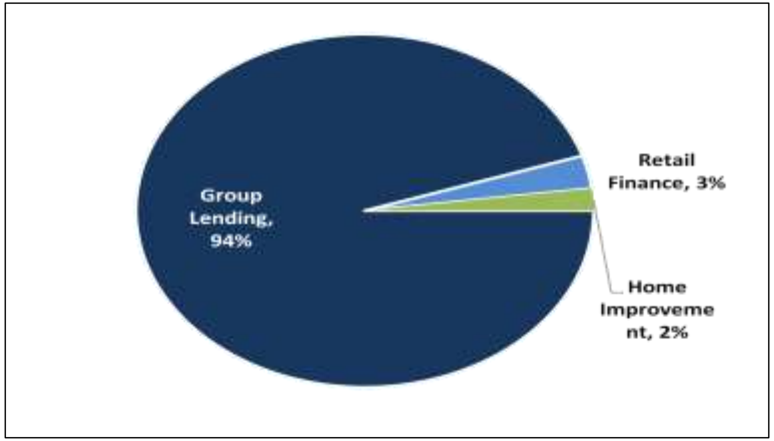
Gross Loan Portfolio Trend (Rs Cr)



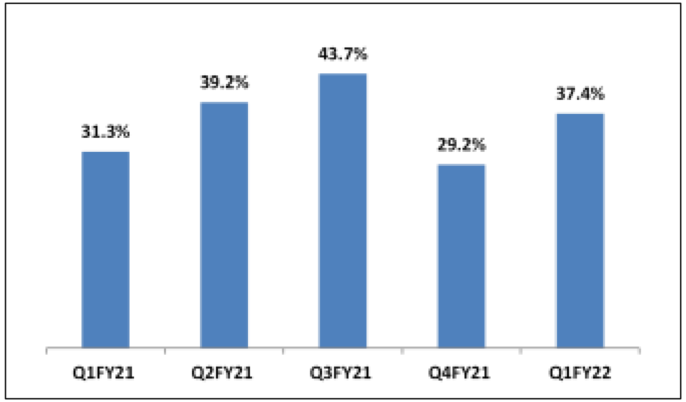
Geographical Breakup(%)



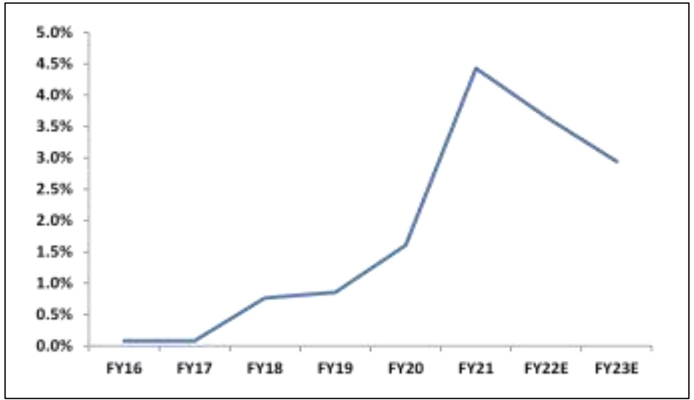
AUM Mix Product Category wise



Cost to Income Ratio (%)



Asset Quality Trend (%)



Return on Assets Ratios%

(Source: Company, HDFC sec Research)

RETAIL RESEARCH

CreditAccess Grameen Ltd.

Financials

Income Statement

(Rs cr)	FY19	FY20	FY21	FY22E	FY23E
Interest Income	1218.3	1633.4	2290.0	2695.1	3259.3
Interest Expenses	416.8	580.0	928.7	897.9	1001.5
Net Interest Income	**801.6**	**1053.4**	**1361.3**	**1797.2**	**2257.8**
Non interest income	65.0	72.1	176.0	102.7	92.7
Operating Income	**866.6**	**1125.5**	**1537.4**	**1899.9**	**2350.5**
Operating Expenses	294.0	426.6	585.5	691.8	832.8
PPOP	572.6	698.9	951.9	1208.1	1517.6
Prov & Cont	74.9	237.3	771.4	513.4	347.6
Profit Before Tax	497.7	461.6	180.5	694.8	1170.1
Tax	176.0	126.1	49.0	187.6	315.9
PAT	**321.8**	**335.5**	**131.5**	**507.2**	**854.2**

Balance Sheet

(Rs cr)	FY19	FY20	FY21	FY22E	FY23E
Share Capital	143.6	144.0	155.6	155.6	155.6
Reserves & Surplus	2221.5	2699.2	3640.8	4148.0	5002.1
Shareholder funds	**2365.1**	**2843.2**	**3796.4**	**4303.6**	**5157.7**
Borrowings	4866.6	9539.7	10941.3	11505.6	14173.1
Other Liab & Prov.	125.5	206.8	321.5	385.8	463.0
SOURCES OF FUNDS	**7357.2**	**12589.6**	**15059.3**	**16195.0**	**19793.8**
Fixed Assets	18.7	31.7	24.2	43.0	43.0
Intangible assets	8.4	547.7	549.2	600.0	600.0
Investment	0.2	45.6	0.5	69.7	84.7
Cash & Bank Balance	615.6	717.6	2484.4	1349.4	1894.6
Advances	6602.8	11098.9	11720.5	13947.4	16946.1
Other Assets	111.5	148.2	280.5	185.5	225.4
TOTAL ASSETS	**7357.2**	**12589.6**	**15059.2**	**16195.0**	**19793.8**

(Source: Company, HDFC sec Research)

CreditAccess Grameen Ltd.

Key Ratios (%)

	FY19	FY20	FY21	FY22E	FY23E
Return Ratios					
Calc. Yield on adv	21.2%	18.5%	20.1%	21.0%	21.1%
Calc. Cost of borr	9.8%	8.1%	9.1%	8.0%	7.8%
NIM	13.9%	11.9%	11.9%	14.0%	14.6%
RoAE	16.9%	12.9%	4.0%	12.5%	18.1%
RoAA	5.2%	3.4%	1.0%	3.2%	4.7%
Asset Quality Ratios					
GNPA	0.9%	1.6%	4.4%	3.6%	2.9%
NNPA	0.2%	0.3%	1.4%	1.1%	1.2%
PCR	78%	76%	68%	69%	60%
Growth Ratios					
Advances	34.9%	68.1%	5.6%	19.0%	21.5%
Borrowings	34.3%	96.0%	14.7%	5.2%	23.2%
NII	58.4%	31.4%	29.2%	32.0%	25.6%
PPP	81.9%	22.1%	36.2%	26.9%	25.6%
PAT	51.4%	4.3%	-60.8%	285.7%	68.4%

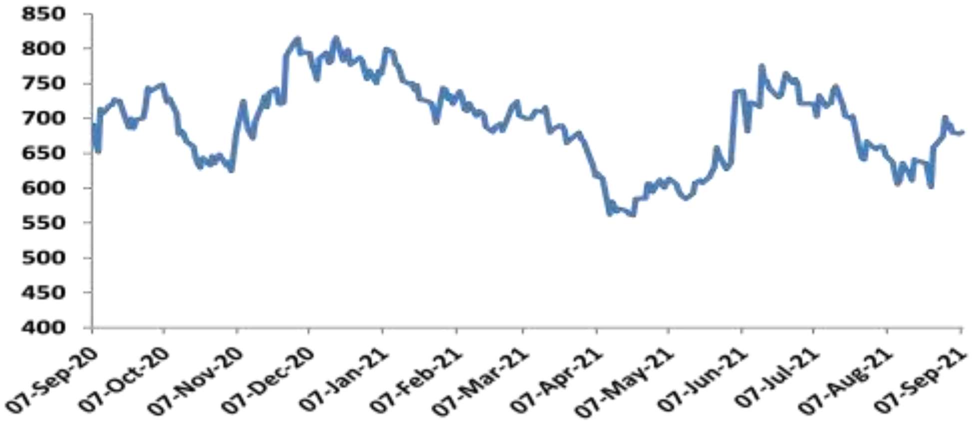
(Source: Company, HDFC sec Research)

Key Ratios

	FY19	FY20	FY21	FY22E	FY23E
Valuation Ratios					
EPS	22.4	23.3	8.5	32.6	54.9
P/E	30.5	29.4	80.5	21.0	12.5
Adj. BVPS	164.0	195.1	233.4	266.5	318.6
P/ABV	4.2	3.5	2.9	2.6	2.1
Dividend per share	0 .0	0.0	0.0	0.0	0.0
Other Ratios					
Cost-Income	33.9	37.9	38.1	36.4	35.4
Leverage	2.8	3.9	3.1	3.2	3.3

CreditAccess Grameen Ltd.

One Year Price Chart



HDFC Sec Retail Research Rating description

Green rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Blue Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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