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Re-Initiating Coverage CreditAccess Grameen Ltd.

26-March-2021



Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
MFI	Rs.664.9	Buy at 618 and add on dips to Rs.566	Rs.685	Rs.733	2 quarters

HDFC Scrip Code	CREACCEQNR
BSE Code	541770
NSE Code	CREDITACC
Bloomberg	CRE DAG IN
CMP Mar 25, 2021	664.9
Equity Capital (Rsbn)	1.58
Face Value (Rs)	10
Equity Share O/S (mn)	155.5
Market Cap (Rs bn)	103.42
Adj. Book Value (Rs)	243.3
Avg. 52 Wk Volumes	2415359
52 Week High	839
52 Week Low	305.75

Share holding Pattern % (Dec, 2020)	
Promoters	74.03
Institutions	22.6
Non Institutions	3.37
Total	100.0

Fundamental Research Analyst

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Our Take:

The microfinance industry was hit hard due to the pandemic. They had faced many challenges as the collection efficiency dropped drastically, but with gradual pickup in economic activities things are improving. CreditAccess MNC parentage with long standing experience in micro-lending across Asia has enabled strong liquidity profile and adequate capital buffer. Promoter has provided capital funding to CAG from time to time and provides access to potential fundraising opportunities in the debt capital markets. CreditAccess has been one of the best capitalized and fastest growing MFI across industry, registering an advanced growth of CAGR 52% from FY15-20. With the strong balance sheet position the company has opportunity to increase its market share as well as scale up its presence in existing and newer geographies. 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. CreditAccess has huge opportunity lying ahead because of low penetration. It has unique positioning and has one of the lowest lending rates & one of the best operating cost efficiencies. All this has helped company in becoming the leader.

The company posted loss in Q3FY21 because of higher provisioning but now the management stated that significant provisioning requirement has been completed and going forward they will only have business as usual provisioning. Disbursements growth has reached pre Covid level.

We had issued Initiating Report on CreditAccess on 28th August, 2020 and recommended Buy at LTP and add on dips to Rs.586-590 band, for base case target of Rs.733 and bull case target of Rs.801 over the next two quarters. The stock achieved our Bull case target of Rs.801 yielding return of 22% on 27 Nov 2020. Then again we have recommended the stock as a Diwali Picks for Rs.797 Target, which was achieved on 27 Nov 2020 yielding return of 27.7%. Both the links are:

<https://www.hdfcsec.com/hsl.research.pdf/CreditAccess%20Grameen-%20Initiating%20Coverage-28082020.pdf>

<https://www.hdfcsec.com/hsl.research.pdf/HDFC%20Sec%20Retail%20Research%20Diwali%20Picks%20-2020.pdf>

Valuations & Recommendation:

With disbursements picking up to pre covid levels and expansion into newer geographies we believe that the company could manage to post an AUM growth of ~22% over FY20-23E. We have envisaged 30% CAGR for Net Interest Income (NII) and 38% CAGR for Net profit over same time frame. We build Loan Loss Provisions (LLPs) of 3.4% over FY21-23E. We feel that investors can buy CreditAccess Buy at 618 (1.85x FY23E ABV) and add on dips to Rs.566 (1.7x FY23E ABV) for the base case fair value of Rs. 685 (2.05x FY23E ABV) and the base case fair value of Rs. 733 (2.2x FY23E ABV) over next 2 Quarters.

Financial Summary

Particulars (Rsmn)	Q3FY21	Q3FY20	YoY-%	Q2FY21	QoQ-%	FY19	FY20	FY21E	FY22E	FY23E
Net Interest Income	3,095	3,095	1.1	3,377	-8.4	8,016	10,534	13,588	17,824	23,120
PPOP	1,703	2,005	-15.1	1,969	-14	5,726	6,989	8,708	11,878	15,671
PAT	-791	1,113	PL	670	PL	3,218	3,355	1,658	5,335	8,911
EPS (Rs)						22.4	23.2	10.5	33.8	56.4
ROAE (%)						16.9	13.1	5.0	12.8	18.2
ROAA (%)						5.16	3.34	1.19	3.19	4.30
Adj. BVPS (Rs)						164.8	187.7	243.3	277.1	333.5
P/ABV (x)						4.0	3.5	2.7	2.4	2.0
P/E (x)						29.7	28.7	63.3	19.7	11.8

(Source: Company, HDFC sec)

Recent Developments

Q3FY21 Result update

The jump in provisions has dented the earnings. The company reported loss of Rs.791 mn. Non-tax provisions surged 5x/3x YoY/QoQ to ~Rs. 2.8bn (9.4% annualised) and it wrote-off ~Rs. 1.1bn including accelerated write-offs of Rs. 847mn. NII came in at Rs. 3,095 mn down 8.4% QoQ. AUM as on Q3FY21 stood at 12.3bn, grew ~39/10% YoY/QoQ and disbursements grew ~38/184% YoY/QoQ to ~Rs. 40bn. On the asset quality front Gross stage -3 stood at 6.1% compared to 1.8% last quarter. Management believed that now significant provisioning requirement has been completed and going forward they will only have business as usual provisioning.

MMFL performance seems improving but at a slower pace and comparable to the industry. The collection efficiency improved from 83% in September 2020 to 86% in December 2020, while Portfolio at Risk (PAR) 60 is 5.5% and PAR90 is 2.9% indicating higher proportion of partial paying customers.

Continued Improvement in Collections

The microfinance industry was hit hard due to the pandemic. They have to face many challenges like the continuity of business operations on the field, slowdown of economic activities and the possible adverse impact on the asset quality. The collection efficiency dropped drastically but with gradual pickup in economic activity things are improving.

The company began Q3FY21 on a strong footing with collection efficiency of 88% in September 2020. This further improved to 91% in December 2020 wherein it was 93% excluding Maharashtra state. The overall collection including arrears is 96% in December 2020 and the trend continues in January 2021 as well. The share of portfolio on account of full paying customers increased from 81% in September 2020 to 88% in December 2020. Partial paying customers decreased from 11% in September 2020 to 7% in December 2020 and non-paying customers decreased from 8% in September 2020 to 5% in December 2020.

Branch Expansion Growth Strategy

CreditAccess 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. The company is expanding its reach beyond top 3 states (Tamil Nadu, Karnataka, and Maharashtra). This strategy negates concentration risk. 44% of incremental branch addition over the past 3 years has come from new geographies which has contributed 18% of the incremental growth. Further, the company has also focused on minimizing concentration risks with diversification at a district level. The management has guided the share of Karnataka and Maharashtra will come down from 38% and 25% currently to 25-26% and 20% respectively in the next 3 years, while Tamil Nadu will continue to contribute 20% to the GLP. Thus Top-3 states will reduce from ~83% currently to 50-60% in the next 3 years.

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.

Adequately capitalized for future growth

In Oct-20 the company raised Rs 8000 mn via qualified institutional placement (QIP) of 11.3 mn equity shares at Rs. 707 each.

The capital adequacy continues to remain comfortable at 31.4% at the CAGL and 23.3% in MMFL despite accelerated provisioning and write-offs which led to loss in Q3 FY2021. The consolidated liquidity position continues to remain strong and with continuous support from the lenders CreditAccess has Rs.15.07 bn of cash and cash equivalent, Rs.15.99 bn undrawn factions and Rs.41.13 bn of sanctions in pipeline as on December 31, 2020. This places it in a comfortable position to achieve growth targets of FY21. Funding as on Q3FY21 was diversified with banks contributed 64%, direct assignment ~4% while foreign institution and sources contributed around 22% and 10% respectively. Strong parentage - CreditAccess Asia provides access to global fundraising opportunities. This gives additional cushion to absorb risks. With the strong balance sheet position the company has opportunity to increase its market share as well as scale up its presence in existing and newer geographies.

MFI sector long term opportunity

MFI segment has faced numerous disruptions over the past decade and bounced back even stronger. With every crisis the industry has consolidated. Now the industry AUM has been largely concentrated with-in the top 6-7 players, which currently account for ~50% of the total AUM. Penetration levels have improved over last few year but the opportunity is still huge. Rural area is highly underpenetrated and there the competition is also low. We feel that this segment will drive the growth in the future. CreditAccess's unique positioning in Joint Liability Group (JLG)-based lending especially to women customers in under-served rural areas has helped company in becoming the leader in the industry. It has one of the lowest lending rates & one of the best operating cost efficiencies.

Risks and Concerns:

- Any unfavorable change in rules and regulatory policies can have a negative impact on earnings outlook of the company.
- Despite clocking a sustained improvement in collection efficiency, Portfolio at Risk (PAR) 60 remained sticky at 7% and PAR 90 inched up to 5.2%, on the standalone portfolio. Further, disbursements between June and December accounted for ~49% of the standalone portfolio which had a PAR 60 of ~10bps, implying sticky stress in the back book.
- Any loan waivers announcement particularly in Maharashtra, Karnataka and Tamil Nadu could impact the impact repayment behavior of customers. Political instigation in some of the states asking people not to pay back their dues could result in higher NPAs.

- The company has high regional concentration but management has been actively trying to negate that risk any failure in that strategy possess valuation risk. Also the management is trying to open new branches in newer regions. Any failure in understanding the newer market or slower than expected rationalization of branches could impact the business.
- CreditAccess face competition from small finance banks, MFIs and Banks. Also some commercial banks have begun to directly compete with MFIs for lower income segment customers in certain geographies.
- CreditAccess has not declared any dividends in the past – focusing on growing its loan book. Shareholders wishing to receive regular cash flows may be disappointed unless the company changes its policies.

Financials

Income Statement

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Interest Earned	12,183	16,334	22,853	28,818	36,856
Interest Expended	4,168	5,800	9,265	10,994	13,736
Net Interest Income	8,016	10,534	13,588	17,824	23,120
Other Income	650	721	942	1,224	1,578
Total Income	8,666	11,255	14,530	19,049	24,698
Total Operating Exp	2,940	4,266	5,821	7,170	9,027
PPOP	5,726	6,989	8,708	11,878	15,671
Provisions & Contingencies	749	2,373	6,527	4,718	3,710
PBT	4,977	4,616	2,181	7,161	11,961
Provision for Tax	1,760	1,261	523	1,826	3,050
PAT	3,218	3,355	1,658	5,335	8,911
Minority Interest	-	19	-	-	-
PAT (After Minority Interest)	3,218	3,336	1,658	5,335	8,911

BALANCE SHEET

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
SOURCES OF FUNDS					
Share capital	1,436	1,440	1,580	1,580	1,580
Reserves and surplus	22,215	25,902	37,494	42,829	51,740
Shareholders' funds	23,651	27,342	39,074	44,409	53,320
Minority Interest	-	1,090	-	-	-
Total Borrowings	48,666	95,397	1,12,811	1,35,643	1,78,316
Other Liabilities, provisions	1,257	2,068	1,241	1,431	1,652
Total	73,574	1,25,896	1,53,126	1,81,483	2,33,288
APPLICATION OF FUNDS					
Advances	66,028	1,10,989	1,21,459	1,55,056	2,01,351
Goodwill	-	3,176	4,669	4,669	4,669
Cash and Cash Equivalents	6,156	7,176	17,431	13,566	17,590
Fixed assets	271	2,618	3,926	4,123	4,329
Other Assets	1,119	1,937	5,641	4,069	5,349
Total assets	73,574	1,25,896	1,53,126	1,81,483	2,33,288

Key Ratios (%)

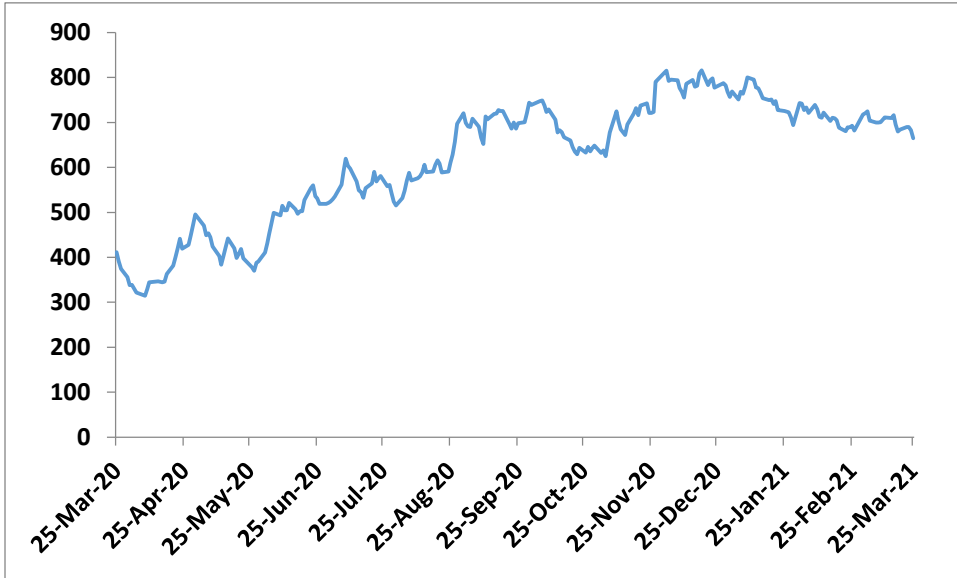
	FY19	FY20	FY21E	FY22E	FY23E
EPS	22.4	23.2	10.5	33.8	56.4
Earnings Growth (%)	35.5	3.3	(54.7)	221.8	67.0
BVPS	164.8	189.9	247.3	281.1	337.5
Adj. BVPS (100% cover, ex G/W)	164.8	187.7	243.3	277.1	333.5
RoAA (%)	5.2	3.3	1.2	3.2	4.3
ROAE (%)	16.9	13.1	5.0	12.8	18.2
P/E (x)	29.7	28.7	63.3	19.7	11.8
P/ABV (x)	4.0	3.5	2.7	2.4	2.0
P/PPOP (x)	17.4	14.3	12.6	9.2	7.0
PROFITABILITY					
Yield on Advances (%)	20.08	17.05	18.20	19.30	19.15
Cost of Funds (%)	9.82	8.05	8.90	8.85	8.75
Core Spread (%)	10.26	9.00	9.30	10.45	10.40
NIM (%)	13.21	11.00	10.82	11.94	12.01
OPERATING EFFICIENCY					
Cost/Avg. AUM Ratio (%)	4.71	4.28	4.17	4.29	4.35
Cost-Income Ratio (%)	33.92	37.91	40.07	37.64	36.55

Key Ratios (%)

	FY19	FY20	FY21E	FY22E	FY23E
BALANCE SHEET STRUCTURE RATIOS					
Loan Growth (%)	34.9	68.1	9.4	27.7	29.9
Borrowing Growth (%)	34.3	96.0	18.3	20.2	31.5
Equity/Assets (%)	32.1	21.7	25.5	24.5	22.9
Equity/Loans (%)	35.8	24.6	32.2	28.6	26.5
Total Capital Adequacy Ratio (CAR)	35.3	23.6	27.5	26.0	24.0
Tier I CAR	34.4	22.3	26.3	25.0	23.1
ASSET QUALITY					
Gross NPLs (Rsm)	492.4	1,421.0	6,310.3	4,768.6	5,109.4
Net NPLs (Rsm)	108.9	343.5	1,129.7	1,345.9	2,015.3
Gross NPLs (%)	0.61	1.28	4.81	2.85	2.35
Net NPLs (%)	0.16	0.31	0.86	0.80	0.93
Coverage Ratio (%)	78	76	82.10	71.8	61
Provision/Avg. AUM (%)	1.30	2.68	5.20	3.16	1.93



One Year Price Chart



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