# CREDITACCESS GRAMEEN LIMITED (CREGRA)

ICICI direct Research

CMP: ₹ 1303 | Target: ₹ 1650 (27%) | Target Period: 12 months | BUY

July 26, 2024

Result Update

## Seasonal impact in Q1; guidance unchanged

**About the stock:** CreditAccess Grameen is one of the largest Microfinance companies in India, having over 3 decades of experience, over ₹ 26,304 crore AUM and a strong distribution channel to provide financial aid to low-income households.

- It operates in over 16 states and 1 UT with 1,967 branches, having a growing employee base of 19,659

**Q1FY25 performance:** CreditAccess Grameen reported mixed quarter wherein business growth remained weak, however, operational performance remained in-line with guidance. Considering Q1 is seasonally weak quarter, moderation was witnessed in disbursement on a YoY comparison (-6.2%), on the back of slower pace of borrower addition, resulting in sequential decline in gross loans (-1.5%), though on YoY basis, growth remained at 20.6% at ₹ 26304 crore. Margins declined 10 bps QoQ at 13%, owing to lower incremental spread. However, impact of lower NIMs and increase in credit cost (20 bps QoQ at 2.6%) was offset by improvement in CI ratio thereby delivering RoA ahead of 5%. Asset quality witnessed deterioration with 28 bps QoQ increase in GNPA at 1.18%, though gradual increase was seen in par 30 and 60 portfolio amid impact of elections and heat wave.

### Investment Rationale

- **Despite seasonal impact, guidance maintained for FY25E:** Q1 is generally muted quarter, which further got impacted due to heatwave, elections and declining collections. However, management has maintained its guidance emphasizing that headwinds were pre-empted and further deterioration in asset quality is not forseen. RoA is expected to remain strong at 5.4-5.5% led by 1) Margin at 13%, owing to steady yield & control on funding cost, 2) improvement in efficiency (30-31% vs earlier 33-35%) and 3) steady AUM growth at 23-24% in FY25E. Credit cost guidance has been kept unchanged at 2.2-2.4% (revised upwards in last quarter).
- **Impact seen on credit cost & collections remain temporary:** Collection efficiency has witnessed a decline from 98.3% to 97.8%, which has resulted in credit cost (at 2.6% in Q1FY25) surpassing guidance of 2.2-2.4%. Tamil Nadu and Bihar along with other states have witnessed some stress. However, management has undertaken steps to address the concern through tightening of credit filters, deploying senior field staff to control further delinquencies and improve granularization of ECL model by shifting to district-wise parameters (PD & LGD). Thus, management remains confident of improvement in 9MFY26 and kept guidance unchanged.

### Rating and Target Price

- Vagaries of seasonally muted quarter have increased amid heat wave and elections. Difficult to ascertain whether this is a hiccup or structural trend. Q2 and Q3 remains watchful to decide the future course. Thus, we lower target from ₹1800 to ₹1650, valuing the stock at 2.6x FY26E BV. Given market leadership and resilient business model coupled with unchanged guidance, we maintain Buy rating

CreditAccess® Grameen

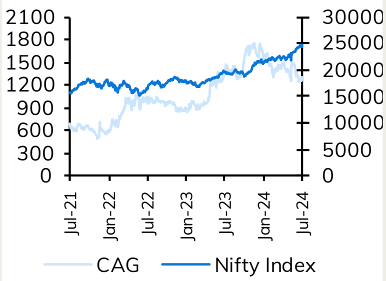
**Particulars**

| Particulars | Amount |
|---|---|
| Market Capitalisation | ₹ 23,095 crore |
| 52 week H/L | 1796 / 993 |
| Net Worth | ₹ 6,570 crore |
| Face value | 10.0 |

**Shareholding pattern**

| (in %) | Sep-23 | Dec-23 | Mar-24 | Jun-24 |
|---|---|---|---|---|
| Promoter | 66.7 | 66.7 | 66.6 | 66.6 |
| FII | 11.5 | 12.0 | 11.7 | 10.9 |
| DII | 15.8 | 15.8 | 15.8 | 16.3 |
| Others | 6.1 | 5.6 | 6.0 | 6.3 |

**Price Chart**




**Key risks**

(i) Moderation in AUM growth

(ii) Increase in delinquencies and thereby credit cost could impact ROA estimates

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**Key Financial Summary**

| ₹ crore | FY21 | FY22 | FY23 | FY24 | 3 Year CAGR (FY21-FY24) | FY25E | FY26E | 2 Year CAGR (FY24-26E) |
|---|---|---|---|---|---|---|---|---|
| NII | 1,361 | 1,583 | 2,114 | 3,168 | 33% | 3,924 | 4,952 | 25% |
| PPP | 952 | 1,078 | 1,506 | 2,391 | 36% | 2,969 | 3,748 | 25% |
| PAT | 131 | 353 | 826 | 1,446 | 122% | 1,702 | 2,156 | 22% |
| ABV (₹) | 237.3 | 263.5 | 316.4 | 407.0 | | 511.5 | 644.9 | |
| P/E | 154.6 | 57.7 | 25.1 | 14.4 | | 12.2 | 9.7 | |
| P/ABV | 5.5 | 5.0 | 4.1 | 3.2 | | 2.6 | 2.0 | |
| RoE (%) | 4.1 | 9.0 | 17.8 | 24.8 | | 22.9 | 23.1 | |
| RoA (%) | 1.0 | 2.2 | 4.2 | 5.7 | | 5.3 | 5.4 | |

*Source: Company, ICICI Direct Research*

## Concall highlights and outlook

- Maintained guidance at 23% - 24% for portfolio growth in FY25E, with a lower growth of 20% in group loan business vs 24.7% growth in FY24 and cost of borrowing to be within the range of 9.8-9.9% for FY25E
- Credit cost guidance maintained at 2.2-2.4% as management has factored in hiccups in the industry while providing guidance in Q4FY24.
- RoA of 5.4% and RoE of 23.5% in Q1FY25 was in line with annual guidance
- The company retained its annual guidance for growth, despite expecting a calibrated growth in June-July or July-August
- There have been no further regulatory actions or indications except for pricing. The regulator is closely monitoring the industry. The industry's self-regulation through the SRO (Self-Regulatory Organization) is seen as a positive step towards regulatory governance.
- Tightened credit filter with deployment of senior and experienced field staff and business support teams to control the flow trend in some pockets
- The company does not anticipate a significant impact on consumer demand or spending due to rain, as the impact is expected to be short-term and limited. The company expects consumer demand to increase as customers' income profiles improve, leading to better credit history and access to retail finance products.
- The company plans to implement district-based loan pricing in Q2FY25, which will help align loan provision rates on a granular basis and optimize revenue generation
- Started individual business loans as its first product over two years ago and has since launched other products, including LAP (Loan Against Property) and two-wheeler loans. The company plans to expand its product offerings, with a focus on LAP, AHL (Affordable Housing Loans), and two-wheeler loans in the next five years.

Exhibit 1: Variance Analysis

| | Q1FY25 | Q1FY24 | YoY (%) | Q4FY24 | QoQ (%) | Comments |
|---|---|---|---|---|---|---|
| NII | 927 | 720 | 28.7 | 881 | 5.2 | Moderation in AUM growth and contraction in margins |
| NIM (%) | 13.0 | 13.0 | 0 bps | 13.1 | -10 bps | |
| Other Income | 171 | 167 | 2.6 | 147 | 16.7 | |
| Net Total Income | 1,098 | 887 | 23.8 | 1,028 | 6.8 | |
| Staff cost | 188 | 156 | 20.1 | 195 | -3.5 | |
| Other Operating Expenses | 205 | 171 | 19.7 | 195 | 5.1 | CI ratio improved YoY and QoQ at ~29% |
| PPP | 706 | 560 | 26.0 | 638 | 10.5 | |
| Provision | 175 | 76 | 128.5 | 153 | 13.9 | Credit cost a tad higher at 2.6% (annualised) |
| PBT | 531 | 483 | 9.8 | 485 | 9.5 | |
| Tax Outgo | 137 | 119 | 15.3 | 132 | 3.6 | |
| PAT | 394 | 365 | 8.1 | 353 | 11.7 | Higher provision impacted earnings momentum |
| Key Metrics | | | | | | |
| Gross loans (₹ crore) | 26,304 | 21,814 | 20.6 | 26,714 | -1.5 | Pace of customer accretion moderate |
| Borrowers (nos '000) | 4,984 | 4,423 | 12.7 | 4,918 | 1.3 | Customer accretion below 1 lakh in Q1 |
| GNPA (%) | 1.46 | 1.00 | 46 bps | 1.18 | 28 bps | Decline in collection efficiency at 97.8% |

## Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

| (Year-end March) | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|
| Interest Earned | 3,327 | 4,900 | 6,121 | 7,487 |
| Interest Expended | 1,213 | 1,732 | 2,198 | 2,535 |
| Net Interest Income | 2,114 | 3,168 | 3,924 | 4,952 |
| % growth | 33.5 | 49.8 | 23.9 | 26.2 |
| Non Interest Income | 224 | 273 | 319 | 354 |
| Net Income | 2,338 | 3,440 | 4,242 | 5,306 |
| Employee cost | 515 | 669 | 807 | 958 |
| Other operating Exp. | 316 | 380 | 467 | 600 |
| Operating Profit | 1,506 | 2,391 | 2,969 | 3,748 |
| Provisions | 401 | 452 | 700 | 873 |
| PBT | 1,105 | 1,939 | 2,270 | 2,874 |
| Taxes | 279 | 493 | 567 | 719 |
| Net Profit | 826 | 1,446 | 1,702 | 2,156 |
| % growth | 134.0 | 75.0 | 17.7 | 26.6 |
| EPS (₹) | 52.0 | 90.7 | 106.8 | 135.3 |

*Source: Company, ICICI Direct Research*

Exhibit 3: Key ratios

| (Year-end March) | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|
| Valuation | | | | |
| No. of Equity Shares | 15.9 | 15.9 | 15.9 | 15.9 |
| EPS (₹) | 52.0 | 90.7 | 106.8 | 135.3 |
| BV (₹) | 321.4 | 412.2 | 519.0 | 654.3 |
| ABV (₹) | 316.4 | 407.0 | 511.5 | 644.9 |
| P/E | 25.1 | 14.4 | 12.2 | 9.6 |
| P/BV | 4.1 | 3.2 | 2.5 | 2.0 |
| P/adj.BV | 4.1 | 3.2 | 2.5 | 2.0 |
| Yields & Margins (%) | | | | |
| Yield on Advances | 15.8% | 18.3% | 20.4% | 20.0% |
| Avg. cost on funds | 7.5% | 7.9% | 8.1% | 7.6% |
| Net Interest Margins | 11.2% | 13.3% | 13.1% | 13.2% |
| Spreads | 8.3% | 10.4% | 12.3% | 12.4% |
| Quality and Efficiency | | | | |
| Cost / Total net income | 35.6% | 30.5% | 30.0% | 29.4% |
| GNPA% | 1.2% | 1.2% | 1.8% | 2.0% |
| NNPA% | 0.4% | 0.4% | 0.4% | 0.4% |
| RoE (%) | 17.8% | 24.8% | 22.9% | 23.1% |
| RoA (%) | 4.2% | 5.7% | 5.3% | 5.4% |

*Source: Company, ICICI Direct Research*

Exhibit 4: Balance sheet ₹ crore

| (Year-end March) | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|
| Sources of Funds | | | | |
| Capital | 159 | 159 | 159 | 159 |
| Reserves and Surplus | 4,948 | 6,411 | 8,113 | 10,268 |
| Networth | 5,107 | 6,570 | 8,272 | 10,428 |
| Borrowings | 16,213 | 21,841 | 27,301 | 33,581 |
| Other Liabilities & Provisions | 538 | 435 | 313 | 332 |
| **Total** | **21,858** | **28,846** | **35,886** | **44,341** |
| | | | | |
| Applications of Funds | | | | |
| Fixed Assets | 32 | 32 | 34 | 37 |
| Investments | 455 | 1,439 | 1,583 | 1,741 |
| Advances | 19,043 | 25,334 | 31,551 | 39,314 |
| Other Assets | 2,328 | 2,041 | 2,718 | 3,249 |
| **Total** | **21,858** | **28,846** | **35,886** | **44,341** |

*Source: Company, ICICI Direct Research*

Exhibit 5: Growth ratios

| (Year-end March) | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|
| Total assets | 25.0% | 32.0% | 24.4% | 23.6% |
| Advances | 29.0% | 33.0% | 24.5% | 24.6% |
| Borrowings | 25.5% | 34.7% | 25.0% | 23.0% |
| Total Income | 32.4% | 47.2% | 23.3% | 25.1% |
| Net interest income | 33.5% | 49.8% | 23.9% | 26.2% |
| Operating expenses | 20.8% | 26.2% | 21.3% | 22.4% |
| Operating profit | 39.8% | 58.7% | 24.2% | 26.2% |
| Net profit | 134.0% | 75.0% | 17.7% | 26.6% |
| Book value | 20.2% | 28.3% | 25.9% | 26.1% |
| EPS | 129.5% | 74.5% | 17.7% | 26.6% |

*Source: Company, ICICI Direct Research*

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%


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