CreditAccess Grameen (CREGRA)

ICICI direct Research

CMP: ₹1395 | Target: ₹ 1700 (22%) | Target Period: 12 months | BUY

March 20, 2024

Eminent leadership in growing market to aid valuation

About the stock: CreditAccess Grameen (CAG) is a Bengaluru based MFI promoted by Credit Access India BV (CAI), with ~66% stake. It caters to low-income households lacking access to formal source of financing.

- CAG's gross loan portfolio (GLP) was at ₹ 23,382 crore, of which ~93% is given as income generation small ticket size loans
- Operations are spread across 16 states and one UT with 1,894 branches and 19,041 employees with a major presence in Karnataka (contributes ~33% of AUM), Maharashtra (~21%) and Tamil Nadu (~20%)

Investment Rationale

- **Sustained market leadership with focus on rural markets:** CAG is largest NBFC-MFI in terms of GLP with substantial market share; mainly focuses on rural customers (>80% of total customers) and offers income generation loans (93% of GLP). With huge untapped opportunity of ~₹ 8.5 lakh crore, CAG is well placed to deliver 20-25% CAGR growth in FY24-26E, driven by accretion of new borrowers & rise in ticket size.
- **Entry in new geography aids customer acquisition & granularity:** CAG has huge distribution network comprising 1,894 branches with strong presence in Karnataka, Maharashtra and Tamil Nadu (constitutes 55% of branches & 74% of AUM). Maintaining leadership in existing markets and undertaking contiguous expansion in new geographies is seen to improve client accretion. New product introduction to provide business diversification. Superior client retention (~80% and 90%) is expected to aid growth.
- **Controlled delinquencies, amid superior underwriting to support RoA:** CAG's conservative credit underwriting practices, robust risk management framework has aided in controlled delinquencies. Superior underwriting architecture characterised by stringent customer on-boarding process, credit bureau checks, physical visits and robust audit process to aid early stress recognition. CAG has been able to maintain credit cost of <2% in the past (barring FY21 - FY23) which is expected to continue ahead, resulting in RoA, RoE of >4%, ~19-20%, respectively, in FY24-26E.

Rating and Target price

- CAG's sustainable track record and market leadership induces confidence. Deeper penetration in rural markets, focus on increasing geographic granularity & diversifying product segment to aid growth. Superior retention & prudent customer selection process to ensure check on asset quality.
- Forthcoming election and fear of regulatory directions could keep near term performance volatile, though core fundamental strength remains intact.
- At the CMP, CAG trades at ~2.3x FY26E ABV, which seems reasonable given leadership and sustained performance. Factoring anticipated business growth at ~23% and sustained RoA ahead of 4%, we upgrade our target price to ₹ 1700 (earlier ₹ 1375), valuing the stock at ~2.8 FY26E ABV. We recommend a **BUY** rating on the stock.

CreditAccess® Grameen

Particulars

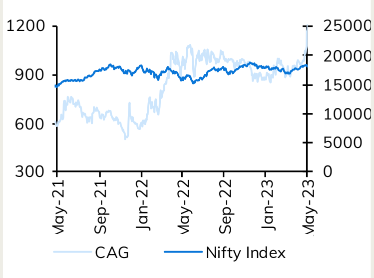
Particulars	Amount
Market Capitalisation	22494 crore
52 week H/L	1796 / 876
Net Worth	5,798
Face value	10.0
DII holding (%)	15.8%
FII holding (%)	12.0%

Risks to our call

1) Overhang of any regulation or direction impacting margins or business growth

2) Continued accretion of stress accretion seen in recent quarter

Price performance



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Conviction Ideas

ICICI Securities – Retail Equity Research

Key Financial Summary

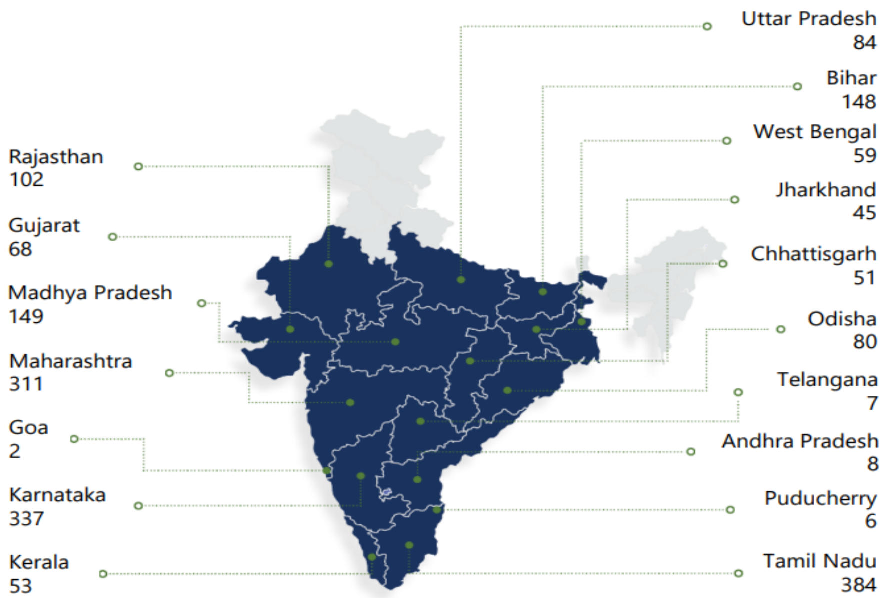
₹ crore	FY20	FY21	FY22	FY23	3 Year CAGR (FY20-FY23)	FY24E	FY25E	FY26E	3 Year CAGR (FY23-26E)
NII	1,055	1,361	1,583	2,114	26%	3,003	3,526	4,277	19%
PPP	699	952	1,078	1,506	29%	2,217	2,593	3,173	20%
PAT	335	131	353	826	35%	1,342	1,527	1,812	23%
ABV (₹)	189.9	237.3	267.3	321.4		405.8	501.9	615.9	
P/E	59.9	165.2	61.6	26.8		16.5	14.5	12.2	
P/ABV	7.3	5.9	5.2	4.3		3.4	2.8	2.3	
RoE (%)	13.2	4.1	9.0	17.8		23.2	21.2	20.4	
RoA (%)	3.4	1.0	2.2	4.2		5.4	5.0	4.9	

Source: Company, ICICI Direct Research

Company Background

CreditAccess Grameen (CAG) is a Bengaluru (Karnataka) based micro finance institution (MFI) promoted by Credit Access India BV (CAI). Parent CAI, Netherlands headquartered, specialises in financing micro, small enterprises and currently holds ~66.7% stake in CAG. In FY20, CAG acquired Tamil Nadu based Madura Micro Finance (MMFL) (~76% stake as of December 2022). The operations of CAG are spread across 16 states and one union territory (UT) with 1,894 branches and 19,041 employees as of December 2023. CAG has a major presence in Karnataka (contributes ~32% of book), Maharashtra (~21%), Tamil Nadu (~20%), which together contributes ~73% of gross loan portfolio (GLP).

Exhibit 1: Major presence in Tamil Nadu, Maharashtra, Karnataka



Source: Company, ICICI Direct Research *as of December 2023

Exhibit 2: Product classification

Loan Type	Products	Purpose	Ticket Size (₹)	Tenure (months)
Group	Income Generation Loan (IGL)	Business Investments and Income Enhancement activities	5,000 - 1,50,000	12 – 36
Group	Home Improvement Loan	Water Connections, Sanitation and Home Improvement & Extensions	5,000 - 20,000	12 – 24
Group	Family Welfare Loan	Festival, Medical, Education and Livelihood Improvement	Up to 20,000	3 – 12
Group	Emergency Loan	Emergencies	1,000	3
Retail Finance	Retail Finance Loan	Purchase of inventory, new two wheeler, buying a home, home improvement or for making capital investment in business or business expansion	Up to 20,00,000	3 – 240

Source: Company, ICICI Direct Research

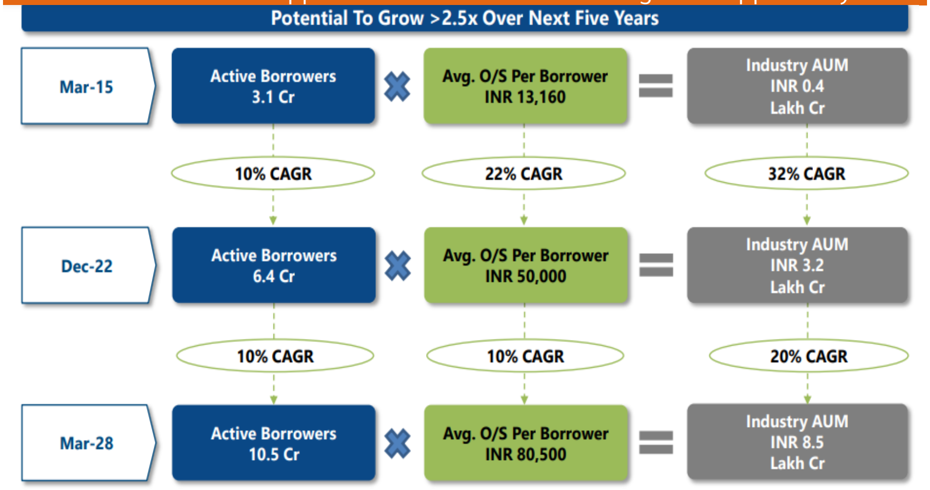
Investment Rationale

Sustained untapped opportunity paves way for >20% growth

The total microfinance portfolio was at ₹ 3.5 lakh crore (growth of ~22%) as of March 2023 catering to ~6.6 crore borrowers via 13 crore loan accounts. Disbursements has increased from ₹ 2.4 lakh crore in FY22 to ₹ 2.96 lakh crore in FY23 with average ticket size rising from ₹ 39,990 in FY22 to ₹ 43,607 in FY23. If compared to other retail loans like credit cards, housing and auto loans, MFI loans have grown at a CAGR of ~29% over FY15-22. In contrast, credit cards have grown at a CAGR of 25% followed by housing at 14% and auto loan at 7% during the same period. With an increase in eligibility criteria of annual income of households, the customer base is likely to increase substantially.

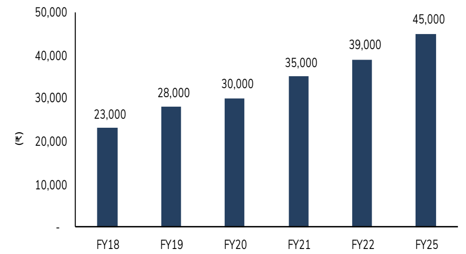
RBI allowed households earning up to ₹ 3 lakh per annum (earlier ₹ 1.25 lakh in rural areas and ₹ 2 lakh in non-rural areas) to be classified as eligible for micro loans. As per MFIN, ~70% of total households in rural locations are expected to benefit from enhancement of income level. This is likely to aid in deeper penetration into existing markets as well as entry in new markets.

Exhibit 3: Substantial untapped market offers sustainable growth opportunity



Source: CRISIL, MFIN, ICICI Direct Research

ATS of NBFC-MFI players to increase in FY22-25E



Source: CRISIL, MFIN, ICICI Direct Research

Despite healthy growth in micro finance AUM in previous fiscals, untapped opportunity in micro finance segment continues to remain substantial. Out of total household, ~16.6 crore remained eligible (assuming rejection rate of 20%) with untapped opportunity of ~₹ 8.5 lakh crore. Further, the market potential is expected to increase 1.4x in FY22-25E led by a gradual increase in number of households and average ticket size.

Expect industry AUM to grow at a healthy pace led by;

1) Substantial untapped opportunity,

2) Favourable regulatory changes,

3) Tapping of new borrowers with geographical expansion and

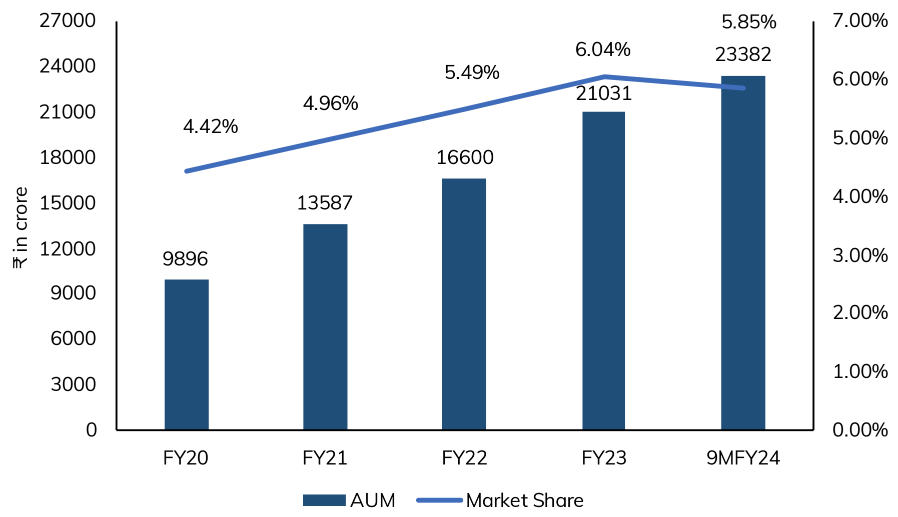
4) Increase in ticket size.

Sustained market leadership gives confidence

CAG is the largest NBFC-MFI in terms of GLP with ~16% share among NBFC-MFI. Market share in four primary states of business operations remain substantial at 22% in Karnataka, 15% in Maharashtra, 9% in Tamil Nadu and 6% in Madhya Pradesh & Chhattisgarh as of March 2023. In FY20, CAG acquired a Chennai based micro finance player - Madura Micro Finance (MMFL), which gave access to newer states like Bihar and Odisha.

CAG reported AUM CAGR of ~31% (~31.5% in (MFY24) and healthy growth in disbursement over FY19-23. During the pandemic, AUM growth slowed down to ~6% YoY, however, the same witnessed revival as economic activities gathered pace. The company mainly focuses on rural customers (>80% of its total customers) under the JLG model and offers income generation (94% of GLP), family welfare, home improvement, emergency and retail loans (secured). The management has guided for AUM growth of 20-25% YoY, which, we believe, is achievable given leadership of company in market with huge untapped opportunity.

Exhibit 4: CAG is largest NBFC-MFI; >20% CAGR growth ahead



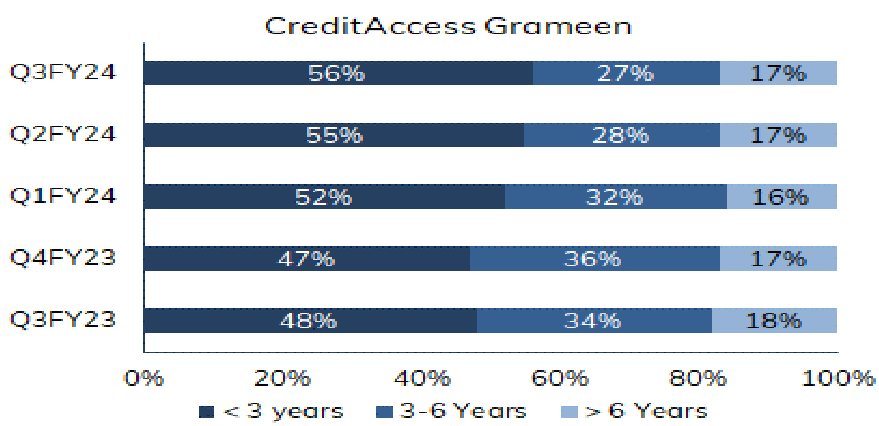
Source: Company, MFIN, ICICI Direct Research

Entry in new geography aids customer acquisition & granularity

CAG has a network of 1,894 branches, across 16 states and one union territory. The company has a strong presence in Karnataka, Maharashtra and Tamil Nadu, which constitutes ~30% of industry micro finance loans. Focusing on aforesaid regions with substantial opportunity, CAG has ~55% of branches in these three states as of December 2023 (contributing ~73% of CAG's AUM). Targeting geographic expansion, CAG has opened 50% of branches in states other than top 3 states in FY23. The borrower concentration has also reduced substantially over the years as share of borrowers from top three states, which was ~80% in FY20, has dropped to ~66% in FY23. Such contiguous expansion has resulted in healthy new client acquisition and improved granularity in terms of risk diversification.

Despite a relatively large AUM and customer base, CAG has reported healthy customer retention in previous years. CAG has been able to achieve customer retention rates between 80% and 90%, led by 1) focus on customer centric business model, 2) wide range of products offerings and 3) flexibility in loan ticket size and repayment (weekly/bi-monthly/monthly options, no pre-payment penalty, etc). Further, increased household income threshold (increased to ₹ 3 lakh from earlier ₹1.25, ₹ 2 lakh for rural, urban, respectively), is seen aiding both in retention of existing customer base and improved pace of acquisition of new clients.

Exhibit 5: Borrower vintage of CAG



Source: Company, ICICI Direct Research

Relatively lower yields but diversified borrowings to aid NIMs

In the micro finance segment, accessibility of funds is more important compared to yields charged on the loan. CAG has lowest lending rates among NBFC-MFIs

(~19.6% yields vs. ~22-25% for peers as of December 2022), which enables it to face competition through better customer retention. Removal of cap on margin (in recent regulations) offers great flexibility in loan pricing as per customer risk profile, track record & vintage. CAG has adopted risk-based pricing model earlier and recently (in Dec'23) has undertaken ~50 bps cut in yields, being among the first to cut rates.

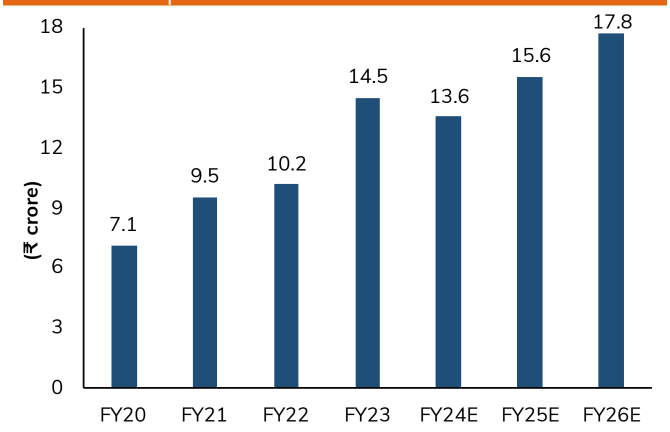
In 2016, CAG started diversifying its AUM mix through entry in secured retail loans (vehicle finance, affordable housing, gold loans, LAP and individual loans). These loans have lower yields compared to micro finance business. Thus, while faster growth in new category of loans could have marginal impact on margins, entry in new segments will entail higher business growth. Currently, the share of non-MFI book is low single digit of total GLP. The management aims to increase this share to ~10% in the next four to five years.

CAG has a diversified borrowing mix with focus on long-term funding with diversification between domestic and foreign sources thereby aiding in effective liability management. The management is aiming for ~50% bank borrowings and foreign borrowings at ~15% in the long run. Also, CAG has A+ / AA- rating for long term instruments by key rating agencies, which gives them benefit of lower cost of funds. For FY23, cost of funds was at 9.4% (lowest in peers) vs. average ~11% for peers. In 9MFY24, cost of funds has increased in-line with industry, however, cost of borrowing seems to be peaked out in Q3FY24 and is expected to stabilize amid steady marginal cost of borrowing ahead. We believe CAG's ability to pass on rates effectively and lowest cost of funds led by diversified borrowing profile will aid margin trajectory (~12% in FY24E as per management guidance).

Opex to remain steady supporting bottom line

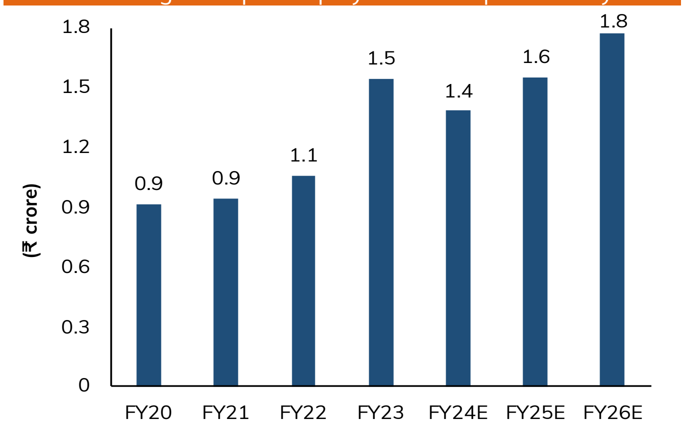
CAG's business model depends substantially on physical infrastructure both in terms of branches and human resource. A substantial branch network is required for deeper penetration and loan officers are needed to conduct regular meetings with customers for better engagement. Driven by continuous technology enhancements and improved productivity, cost to income ratio has declined to ~31% in 9MFY24 which is expected to remain steady. Further, the management expects an efficient cost structure, deep rural penetration, district-based expansion strategy, high customer retention to aid business efficiency. With a relatively superior operating metrics (loan officer per branch, borrowers per employee, AUM per branch), we expect opex to remain in the range of ~30-32% over FY24-26E.

Exhibit 6: AUM per branch trend



Source: Company, ICICI Direct Research

Exhibit 7: Rising AUM per employee reflects productivity



Source: Company, ICICI Direct Research

Increase in PAR remains transitory and in-line with industry; management remains confident of superior underwriting process

CAG's conservative credit underwriting practices, robust risk management framework, extensive customer assessment has aided in controlled delinquencies despite major uncertain events in the past.

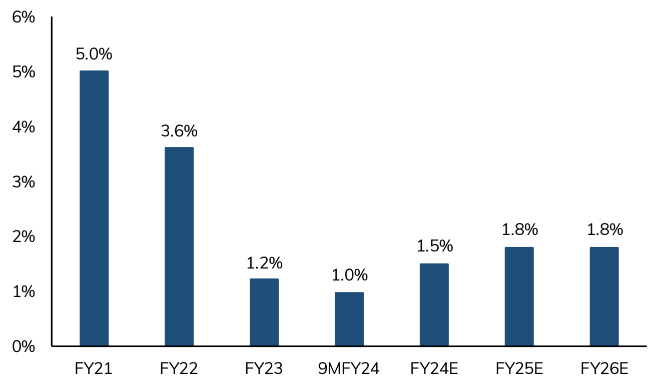
With risk management being integral to core business strategy and operating processes, CAG's superior underwriting architecture is characterised by 1) contiguous district-based expansion strategy, 2) stringent customer on-boarding process, 3) checks from credit bureau and physical visits, 4) training to borrowers. Robust audit and risk management process including appropriate limits on risk exposures, internal caps on borrower and rigorous audits aids in early stress recognition and frauds.

Regular engagement with borrowers through weekly/bi-monthly/monthly model helps early identification of stress, better collection efficiency and quick recoveries. For most MFI players collection efficiency has reached pre-Covid levels including CAG (~98% as of March 2023).

In 9MFY24, portfolio at risk witnessed an increase (PAR 90 up 20 bps to 0.8%) owing to TN floods and higher delinquencies in newer states, however, management remains confident on volatility being transitory with increased coverage (~1.8% in Q3FY24) provides confidence. Further, credit cost guidance has been maintained for FY24.

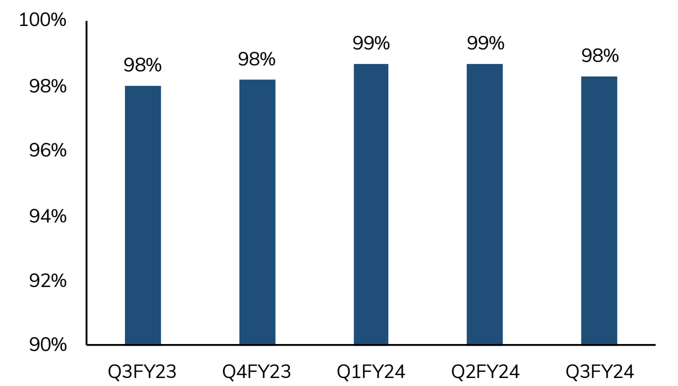
CAG has been able to maintain credit cost of <2% in the past (barring FY21 - FY23) which is expected to continue ahead, resulting in RoA, RoE of >4%, ~19-20%, respectively, in 24-26E.

Exhibit 8: GNPA to remain steady at ~2% over FY24-26E



Source: Company, ICICI Direct Research

Exhibit 9: Collection efficiency healthy, back to pre-Covid



Source: Company, ICICI Direct Research

Valuation and outlook

CAG has an established track record of sustainable performance for more than 20 years and is a market leader with ~6% share in overall MFI (in GLP terms as of March 2023). CAG's deeper penetration in rural markets, strengthening leadership position in key states like Karnataka, Maharashtra and Tamil Nadu along with focus on new geographies (Bihar, Madhya Pradesh, etc), borrower base with high retention rate of more than 80% augur well for business and earnings growth. Further, entry into new product segments to provide diversification and keep growth momentum abated in long run. Asset quality, in the recent past, has witnessed some volatility, however, prudent underwriting and focus on continued customer engagement is expected to ensure healthy asset quality which is evident from GNPA declining to 1.2% in FY23, post surge 4.4% in FY21, amid Covid.

At the CMP, CAG trades at ~2.3x FY26E ABV, which seems reasonable given leadership and sustained performance. Factoring anticipated business growth at ~23% and sustained RoA ahead of 4%, we upgrade our target price to ₹ 1700 (earlier ₹ 1375), valuing the stock at ~2.8 FY26E ABV. We recommend a BUY rating on the stock.

Key risks and concerns

Geographic concentration

CAG has a significant concentration in three states with ~74% of total GLP coming from Karnataka (33%), Maharashtra (21%) and Tamil Nadu (20%). Total ~66% of borrowers and ~56% of branches are from these three states as of March 2023. Though, the company is gradually increasing geographical diversification, any adverse developments in these states may impact operations, business growth and asset quality. The business may also be impacted due to change in local politics, natural calamity, etc.

Borrowings from informal sources remain grey area

As per the latest MFI guidelines, loan repayment amount (EMIs) cannot exceed 50% of monthly household income of the borrower. However, borrowings from informal sources, especially from moneylenders, landlords, friends and relatives does not get captured in credit bureau check, which ultimately impacts the repaying capacity of the borrower due to increase in fixed obligation to income ratio (FOIR). Thus, assessment of informal borrowing, if any, remains a grey area and could impact the repayment capacity of borrower.

Continued increase in stress assets could de-rail earnings estimates

Post continued improvement in asset quality in post Covid era, micro-finance players have witnessed an increase in PAR (portfolio at risk) amid floods in TN and upcoming elections. While management remains confident of the asset quality, given history of volatility in collections during elections and recent floods, any significant build up in stress portfolio could impact earnings.

Regulatory risk remains a concern

In the recent past, RBI has been in discussion with MFIs to pass on benefit of lower rates to the customers and judiciously utilize the benefit of flexibility given to charge interest rates. In addition, regulator has indicated importance of clear communication of interest rates and fees charged to customer. Increased scrutiny of regulator remains a concern which could impact business growth and earnings of the industry.

Financial Summary

Exhibit 10: Profit & Loss statement (₹ crore)

(Year-end March)	FY22	FY23	FY24E	FY25E	FY26E
Interest Earned	2,567	3,327	4,578	5,513	6,570
Interest Expended	984	1,213	1,575	1,987	2,293
Net Interest Income	1,583	2,114	3,003	3,526	4,277
% growth	16.3	33.5	42.0	17.4	21.3
Non Interest Income	183	224	212	243	265
Net Income	1,766	2,338	3,214	3,768	4,542
Employee cost	438	515	633	747	863
Other operating Exp.	251	316	364	429	506
Operating Profit	1,078	1,506	2,217	2,593	3,173
Provisions	597	401	428	556	758
PBT	481	1,105	1,789	2,037	2,416
Taxes	128	279	447	509	604
Net Profit	353	826	1,342	1,527	1,812
% growth	168.7	134.0	62.5	13.8	18.6
EPS (₹)	22.7	52.0	84.5	96.1	114.0

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios

(Year-end March)	FY22	FY23	FY24E	FY25E	FY26E
Valuation					
No. of Equity Shares	15.6	15.9	15.9	15.9	15.9
EPS (₹)	22.7	52.0	84.5	96.1	114.0
BV (₹)	267.3	321.4	405.8	501.9	615.9
ABV (₹)	267.3	321.4	405.8	501.9	615.9
P/E	61.6	26.8	16.5	14.5	12.2
P/BV	5.2	4.3	3.4	2.8	2.3
P/adj.BV	5.2	4.3	3.4	2.8	2.3
Yields & Margins (%)					
Yield on Advances	15.5%	15.8%	19.5%	19.1%	18.6%
Avg. cost on funds	7.6%	7.5%	7.9%	8.1%	7.6%
Net Interest Margins	10.5%	11.2%	12.8%	12.2%	12.1%
Spreads	7.8%	8.3%	11.6%	11.0%	11.0%
Quality and Efficiency					
Cost / Total net income	39.0%	35.6%	31.0%	31.2%	30.1%
GNPA%	3.6%	1.2%	1.5%	1.8%	1.8%
NNPA%	0.4%	0.4%	0.4%	0.4%	0.4%
ROE (%)	9.0%	17.8%	23.2%	21.2%	20.4%
ROA (%)	2.2%	4.2%	5.4%	5.0%	4.9%

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet Statement (₹ crore)

(Year-end March)	FY22	FY23	FY24E	FY25E	FY26E
Sources of Funds					
Capital	156	159	159	159	159
Reserves and Surplus	4,011	4,948	6,290	7,817	9,629
Networth	4,167	5,107	6,449	7,976	9,788
Borrowings	12,921	16,213	19,942	24,529	30,171
Other Liabilities & Provisions	394	538	1,104	966	684
Total	**17,482**	**21,858**	**27,495**	**33,472**	**40,643**
Applications of Funds					
Fixed Assets	32	32	35	39	43
Investments	-	455	455	455	455
Advances	14,765	19,043	23,696	29,040	35,454
Other Assets	2,685	2,328	3,310	3,938	4,692
Total	**17,482**	**21,858**	**27,495**	**33,472**	**40,643**

Source: Company, ICICI Direct Research

Exhibit 13: Growth Ratios (₹ crore)

(Year-end March)	FY22	FY23	FY24E	FY25E	FY26E
Total assets	16.1%	25.0%	25.8%	21.7%	21.4%
Advances	26.0%	29.0%	24.4%	22.6%	22.1%
Borrowings	18.2%	25.5%	23.0%	23.0%	23.0%
Total Income	14.9%	32.4%	37.5%	17.2%	20.5%
Net interest income	16.3%	33.5%	42.0%	17.4%	21.3%
Operating expenses	17.6%	20.8%	19.9%	17.9%	16.5%
Operating profit	13.2%	39.8%	47.2%	17.0%	22.4%
Net profit	168.7%	134.0%	62.5%	13.8%	18.6%
Book value	12.7%	20.2%	26.3%	23.7%	22.7%
EPS	168.2%	129.5%	62.5%	13.8%	18.6%

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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