

# CreditAccess Grameen (CREGRA)

CMP: ₹ 1429

Target: ₹ 1800 (26%)

Target Period: 12 months

BUY

May 8, 2024

## Steady Q4FY24; optimistic outlook to drive valuation

**About the stock:** CreditAccess Grameen is one of the largest Microfinance companies in India, having over 3 decades of experience, over ₹ 26,714 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 19,395.

**Q4FY24 performance:** CreditAccess Grameen reported continued steady performance in-line with guidance. Healthy disbursement growth of 12.3% YoY led to 27% YoY uptick in AUM at ₹26714 crore. Healthy borrower accretion (15.3% YoY) and increase in ticket size aided AUM growth. Steady margins at 13.1% and expansion in AUM, led NII growth at 33.7% YoY, while range bound Opex at 30.1%, resulted in 33.9% YoY growth in PAT at ₹397.1 crore and RoA at 5.7%. GNPA (60+ dpd) witnessed an increase of 20 bps to 1.2%, rise in credit cost could be attributed to cautions stance of management amid geographic expansion.

## Investment Rationale

- Improvement in guidance backed by better margins & efficiency:** Guidance for long term has been revised emphasizing on improved earnings with RoA expected to inch up ~50 bps to 5.5-5.5% led by 1) improved spread given control on funding cost, 2) improvement in efficiency (30-31% vs earlier 33-35%) and 3) steady AUM growth at 20-25% in FY25-28E. Credit cost guidance has inched up 40 bps to 2.2-2.4%, amid geographic expansion.
- Entry in new geography aids customer acquisition & granularity:** Maintaining leadership in existing markets and undertaking contiguous expansion in new geographies is seen to improve client accretion. Management has plans to grow AUM at 23-24%, of which growth in core market is seen at 10-15% indicating emphasize on new markets.
- Credit cost guidance higher amid geographic expansion:** CAG's conservative credit underwriting practices, robust risk management framework has aided in controlled delinquencies. While GNPA remained steady at 1.18%, Par 60+ dpd portfolio has witnessed an increase of 20 bps QoQ to 1.2%; 10 bps led by Tamil Nadu floods. However, management remains confident given steady collections at 98.3%. Credit cost guidance has increased from earlier 1.6-1.8% to 2.2-2.4% amid geographic expansion as customer vintage in new markets will be lower. However, management broadly maintains guidance of 5.4-5.5% for FY25E.

## Rating and Target Price

- Maintaining market leadership along with prudent asset quality emphasizes on sustainable and resilient business model. Strategy to expand geographic reach with focus on customer selection, retention should continue to aid asset quality. Factoring RoA at ~5.4-5.5% level coupled with 20-25% growth in AUM, we value the stock at 2.8x FY26E ABV and assign a target of ₹1800 per share (previous target at ₹1700). Maintain Buy rating.



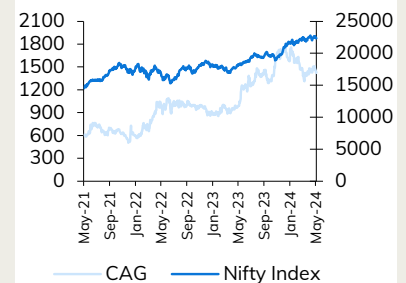
### Particulars

Particulars	Amount
Market Capitalisation	23,095 crore
52 week H/L	1796 / 993
Net Worth	6,570 crore
Face value	10.0
DII holding (%)	15.8%
FII holding (%)	11.7%

### Shareholding pattern

(in %)	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Promoter	73.7	66.8	66.7	66.7	66.6
FII	9.7	9.6	11.5	12.0	11.7
DII	12.3	11.9	15.8	15.8	15.8
Others	4.4	11.8	6.1	5.6	6.0

### Price Chart



### Key risks

- Moderation in AUM growth
- 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%	3,929	4,948	25%
PPP	952	1,078	1,506	2,391	36%	2,993	3,810	26%
PAT	131	353	826	1,446	122%	1,715	2,196	23%
ABV (₹)	237.3	263.5	316.4	407.0		513.2	649.3	
P/E	171.0	63.7	27.8	15.9		13.4	10.5	
P/ABV	6.1	5.5	4.6	3.5		2.8	2.2	
RoE (%)	4.1	9.0	17.8	24.8		23.1	23.4	
RoA (%)	1.0	2.2	4.2	5.7		5.3	5.4	

Source: Company, ICICI Direct Research

## Concall highlights and outlook

- Completed 25 years of operation and became the first standalone microfinance entity to cross ₹ 25,000 crore AUM
- Created additional provision of ₹ 26 crore towards long-term incentives and one-time special bonus to the employees
- Strong consumer demand with addition of 13.5 lakh new customers during the year and 4.2 lakh in Q4FY24, this set the average at 1.1 lakh addition every month. The customer base grew 15.3% YoY and 4.8% QoQ to 49.2 lakh in FY24

### Financial Highlights

- Disbursements grew at ₹ 8,053 crore in Q4FY24; up 12.3% YoY and at ₹23,134 crore for FY24; up 24.8% YoY. AUM growth registered at 27% YoY and 14.2% QoQ to ₹ 26,714 crore
- The steady growth in AUM was also due to steady growth in newer geographic areas, as 44% of total customer additions in the last year were from outside its top 3 states.
- The company plans to expand its presence beyond the top 3 states of Karnataka, Maharashtra and Tamil Nadu. Management expects its total AUM to grow at a CAGR of 23%-24% in FY25E. Core geographies are only growing at 10%-15%, suggesting that the new markets are expected to see higher growth.
- Cost of borrowing was reported at 9.8%, with majority of borrowing sourced from banks during the quarter
- The credit cost in Q4FY24 stood at ₹ 153 crore, which was partially offset by ₹ 13 crore of bad debts recovery. The increase in credit cost can be attributed to higher provisioning due to growth in non-core market
- The company has been following a modified ECL provisioning strategy, where provisioning rates are aligned with geographic and vintage risk. This causes higher Stage 1 provisioning as the company plans to drive growth through new markets, resulting in higher initial provisioning at the loan booking stage. Hence, the company has raised its credit cost guidance for FY25E to 2.2-2.4% and FY25-28E to 1.6-1.8% compared to its initial guidance
- The impact of the revised ECL policy can also be seen in the 35 bps rise in ECL provisioning over the past year. The ECL coverage was 1.95 % in Q4FY24 vs 1.6 % in the Q1FY24.
- It posted GNPA of 1.18% in Q4FY24 showing a 3bps decline YoY, NNPA stood at 0.35%

### Future Developments and guidance

- The company is innovating new products for micro-insurance segments and is developing new products for low-income households, such as individual business loans, mortgage-backed loans, and two-wheeler loans. It plans to launch a mortgage business at a lower cost than its competitors.
- They expect the market to double by FY28E, even with a lower expectation of 40% conversion into business
- Guidance for FY25E
  - Loan growth at 23% - 24%
  - NIMs at 12.8% - 12.9%
  - Cost to income at 30% - 31%
  - Credit cost in the range of 2.2% - 2.4%
  - Aiming RoA between 5.4% - 5.5% and RoE between 23% - 23.5%
- Medium-term guidance for FY25-FY28E has loan portfolio growth at 20% - 25%, NIMs in the range of 12.7% - 12.9% and similar range for credit cost, cost to income, RoA and RoE.

**Exhibit 1: Variance Analysis**

	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	Comments
NII	881	619	42.3	803	9.7	Driven by strong business growth and steady yield
NIM (%)	13.1	12.2	90 bps	13.1	0 bps	
Other Income	96	101	-5.4	51	88.6	
Net Total Income	977	721	35.6	854	14.4	
Staff cost	195	135	44.7	157	24.2	
Other Operating Expenses	100	83	19.7	95	4.7	CI ratio remained broadly steady at 30.1%
PPP	683	503	35.8	602	13.4	
Provision	153	105	45.6	126	21.5	Credit cost a tad higher at 2.5% (annualised)
PBT	529	398	33.2	476	11.3	
Tax Outgo	132	101	31.1	122	8.3	
PAT	397	297	33.9	353	12.3	PAT boosted by healthy topline and better efficiency
<b>Key Metrics</b>						
Gross loans (₹ crore)	26,714	21,031	27.0	23,382	14.3	Customer addition and increase in ticket size led to uptick in gross loans
Borrowers (nos '000)	4,918	4,264	15.3	4,693	4.8	Added 2.25 lakh borrowers in Q4FY23
Yields (%)	21.0	19.7	130 bps	21.0	0 bps	
GNPA (%)	1.18	1.21	-3 bps	0.97	21 bps	Steady asset quality

## Financial Summary

### Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
Interest Earned	2,567	3,327	4,900	6,140	7,542
Interest Expended	984	1,213	1,732	2,211	2,594
Net Interest Income	1,583	2,114	3,168	3,929	4,948
% growth	16.3	33.5	49.8	24.0	25.9
Non Interest Income	183	224	273	319	349
Net Income	1,766	2,338	3,440	4,248	5,297
Employee cost	438	515	669	807	958
Other operating Exp.	251	316	380	448	529
Operating Profit	1,078	1,506	2,391	2,993	3,810
Provisions	597	401	452	707	882
PBT	481	1,105	1,939	2,287	2,928
Taxes	128	279	493	572	732
Net Profit	353	826	1,446	1,715	2,196
% growth	168.7	134.0	75.0	18.6	28.1
EPS (₹)	22.7	52.0	90.7	107.6	137.8

Source: Company, ICICI Direct Research

### Exhibit 3: Key ratios

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
Valuation					
No. of Equity Shares	15.6	15.9	15.9	15.9	15.9
EPS (₹)	22.7	52.0	90.7	107.6	137.8
BV (₹)	267.3	321.4	412.2	519.8	657.6
ABV (₹)	263.5	316.4	407.0	513.2	649.3
P/E	63.7	27.8	15.9	13.4	10.5
P/BV	5.4	4.5	3.5	2.8	2.2
P/adj.BV	5.5	4.6	3.5	2.8	2.2
Yields & Margins (%)					
Yield on Advances	15.5%	15.8%	18.3%	20.3%	19.9%
Avg. cost on funds	7.6%	7.5%	7.9%	8.1%	7.6%
Net Interest Margins	10.5%	11.2%	13.3%	13.0%	13.1%
Spreads	7.8%	8.3%	10.4%	12.2%	12.3%
Quality and Efficiency					
Cost / Total net income	39.0%	35.6%	30.5%	29.5%	28.1%
GNPA%	3.6%	1.2%	1.2%	1.8%	1.8%
NNPA%	0.4%	0.4%	0.4%	0.4%	0.4%
ROE (%)	9.0%	17.8%	24.8%	23.1%	23.4%
ROA (%)	2.2%	4.2%	5.7%	5.3%	5.4%

Source: Company, ICICI Direct Research

### Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
Sources of Funds					
Capital	156	159	159	159	159
Reserves and Surplus	4,011	4,948	6,411	8,125	10,322
Networth	4,167	5,107	6,570	8,285	10,481
Borrowings	12,921	16,213	21,841	27,301	34,127
Other Liabilities & Provisions	394	538	435	627	139
<b>Total</b>	<b>17,482</b>	<b>21,858</b>	<b>28,846</b>	<b>36,213</b>	<b>44,747</b>
Applications of Funds					
Fixed Assets	32	32	32	35	39
Investments	-	455	1,439	1,583	1,741
Advances	14,765	19,043	25,334	31,864	39,693
Other Assets	2,685	2,328	2,041	2,731	3,275
<b>Total</b>	<b>17,482</b>	<b>21,858</b>	<b>28,846</b>	<b>36,213</b>	<b>44,747</b>

Source: Company, ICICI Direct Research

### Exhibit 5: Growth ratios

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
Total assets	16.1%	25.0%	32.0%	25.5%	23.6%
Advances	26.0%	29.0%	33.0%	25.8%	24.6%
Borrowings	18.2%	25.5%	34.7%	25.0%	25.0%
Total Income	14.9%	32.4%	47.2%	23.5%	24.7%
Net interest income	16.3%	33.5%	49.8%	24.0%	25.9%
Operating expenses	17.6%	20.8%	26.2%	19.5%	18.6%
Operating profit	13.2%	39.8%	58.7%	25.2%	27.3%
Net profit	168.7%	134.0%	75.0%	18.6%	28.1%
Book value	12.7%	20.2%	28.3%	26.1%	26.5%
EPS	168.2%	129.5%	74.5%	18.6%	28.1%

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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