

CMP: ₹ 1150

Target: ₹ 1375 (20%)

Target Period: 12 months

May 17, 2023

BUY

On track performance; valuations justified...

About the stock: CreditAccess Grameen (CAG) is a Bengaluru based MFI promoted by Credit Access India BV (CAI), with ~73% stake as of March 2023. It caters to low income households lacking access to formal source of financing.

- Operations are spread across 14 states and one union territory (UT) with 1,786 branches and 16,759 employees with a major presence in Karnataka (contributes ~36% of AUM), Maharashtra (~22%) and Tamil Nadu (~21%)

Q4FY23 Results: Robust performance led by healthy business growth and NIMs.

- Gross loan portfolio was up 26.7% YoY at ₹ 21031 crore, led by customer addition and increase in average ticket size
- NII up 34.2% YoY, NIMs up 30 bps QoQ at 12.2%, C/I down to ~30%
- Credit cost steady at 0.6%, PAT grew 86% YoY, 38% QoQ at ₹ 296 crore
- GNPA down 50 bps QoQ to 1.21%. Collection efficiency largely steady

What should investors do? CAG is a niche player with sustained market leadership and consistent performance across cycles. Hence, we believe CAG is well positioned to capture the huge untapped opportunity in the MFI space via deeper penetration in new, existing geographies and increase in customer base.

- Thus, we maintain our **BUY** rating on the stock

Target Price & Valuation: We value CAG at ~2.9x FY25E ABV and revise our target price to ₹ 1375 per share from ₹ 1100 earlier.

Key triggers for future price performance:

- The management has maintained guidance of healthy growth in gross loans at 24-25% YoY driven by 14-15% growth in volume (customer base) and 8-10% increase in value (ticket size)
- Repricing of loans and improvement in CoF to aid margins. The management guidance was at 12-12.2% margins in FY24E
- Branch addition to remain steady at 10%. Controlled opex and lower credit cost to aid earnings and, thus, enable continued superior RoA of ~4.5% and RoE of ~20% in FY24-25E

Alternate Stock Idea: Apart from CAG, in our coverage we like IndusInd Bank.

- IndusInd Bank is one of the largest private banks with a pan-India presence of 2600 branches as of March 2023
- BUY with a target price of ₹ 1450



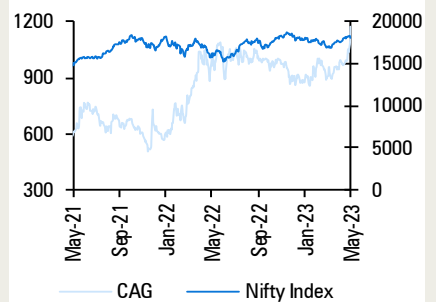
Particulars

Particulars	Amount
Market Capitalisation	₹ 18638 crore
52 week H/L	1183 / 834
Net Worth	5,107
Face value	₹ 10
DII holding (%)	12.3
FII holding (%)	9.7

Shareholding Pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	73.9	73.8	73.7	73.7	73.7
FII	8.2	8.7	9.3	9.6	9.7
DII	10.9	10.8	12.7	12.5	12.3
Others	7.0	6.8	4.3	4.2	4.4

Price performance



Key Highlights

- Margin rose 30 bps QoQ to 12.2%. GNPA down 50 bps QoQ to 1.21%
- Key Risk:** 1) Geographic concentration; 2) Moderation in loan growth

Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Pravin Mule
pravin.mule@icicisecurities.com

Key Financial Summary

₹ crore	FY20	FY21	FY22	FY23	3 Year CAGR (FY20-FY23)	FY24E	FY25E	2 Year CAGR (FY23-25E)
NII	1,055	1,361	1,583	2,114	26%	2,642	3,215	23%
PPP	699	952	1,078	1,506	29%	1,910	2,345	25%
PAT	335	131	353	826	35%	1,141	1,365	29%
ABV (₹)	189.9	237.3	267.3	321.4		393.1	479.1	
P/E	46.7	128.7	48.0	20.9		15.1	12.7	
P/ABV	5.7	4.6	4.1	3.4		2.8	2.3	
RoE (%)	13.2	4.1	9.0	17.8		20.1	19.7	
RoA (%)	3.4	1.0	2.2	4.2		4.6	4.5	

Key takeaways of recent quarter & conference call highlights

Q4FY23 Results: All round robust performance

- CAG reported strong growth in net interest income, which was up 34.2% YoY and 14.5% QoQ at ₹ 619 crore. This was mainly driven by robust growth in gross loans and margins accretion of 30 bps QoQ, 90bps YoY at 12.2%
- Opex was up 15.5% YoY at ₹ 217 crore. However, due to high income levels, C/I ratio declined to 30.2% vs. 34% in Q4FY22. On a sequential basis provisions grew 17.8% at ₹ 105 crore, mainly due to management overlay provision of ₹ 13.8 crore. Gross credit cost was steady QoQ at 0.6%. Thus, CAG reported highest quarterly net profit of ₹ 296 crore, up 1.8x YoY and 1.3x QoQ
- As of March 2023, gross loans grew 26.7% YoY, 18.2% QoQ at ₹ 21031 crore led by 11.5% YoY, 8.3% QoQ growth in borrowers and uptick in ticket size. Disbursements were up 24% YoY, 48% QoQ at ₹ 7171 crore
- CAG's borrower base increased from 38.2 lakh in Q4FY22 to 42.6 in Q4FY23 (vs. 39.3 lakh in Q3FY23) and 45.6% of new borrower addition was from outside the top three states (i.e. Karnataka, Maharashtra and Tamil Nadu)
- CAG's PAR portfolio continues to improve with PAR 0, 30, 60, 90 declining to 1.2%, 1.1%, 0.9%, 0.8% as of March 2023 vs. 1.8%, 1.6%, 1.4%, 1.2% as of December 2022, respectively. The improvement in asset quality was led by steady collections at ~99%

Q4FY23 Earnings Conference Call highlights

- Management guidance for FY24 – Gross loan portfolio growth to be 24-25% YoY, NIMs – 12-12.2%, credit cost – 1.6-1.8%, RoA – 4.7-4.9%, RoE – 20-21%
- During the quarter, CAG added ~3.25 lakh customers taking the customer count to 42.6 lakh. The management expects 14-15% growth in total customer base in FY24
- During the quarter, 59 new branches were added taking the branch count to 1786 and aims to add ~170-180 branches in FY24
- Despite a 250 bps hike in repo rate, CAG increased interest rates by ~60 bps only. The company will continue to offer interest rates to its customers at lower rates
- The management overlay was ₹ 13.8 crore (included in Stage 1 set aside against the legacy MMFL book of ₹ 131 crore, which accounts for only 0.6% of overall gross loan portfolio)
- Yields and CoF to increase ~20-30 bps but NIMs to remain steady
- During Q3, opex was slightly higher due to public NCD cost, which was not there in Q4. Hence, opex was flat QoQ
- Average ticket size is set to increase ~10% in the near term led by increase in customer vintage
- Mortgage, 2-W and unsecured loans will drive retail segment growth. Gold loans do not see much volumes coming in
- The management has guided for ~10-15% recoveries over two to three years. Recovery target was ₹ 50 to 100 crore every year

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP		Rating	M Cap (₹ Bn)	EPS (₹)				P/E (x)			P/ABV (x)			RoA (%)			RoE (%)						
	(₹)	TP(₹)			FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E
Federal Bank (FEDBAN)	127	160	Buy	268	9.0	14.2	15.3	17.6	14.1	8.9	8.3	7.2	1.5	1.3	1.2	1.0	0.9	1.3	1.2	1.2	10.8	14.9	14.2	14.6
IndusInd Bank (INDBA)	1,233	1,450	Buy	957	59.5	95.3	113.9	136.2	20.7	12.9	10.8	9.1	2.1	1.8	1.7	1.4	1.2	1.7	1.8	1.9	10.1	14.5	15.4	16.3
Bandhan (BANBAN)	242	265	Hold	390	0.8	12.9	15.9	20.2	309.9	18.8	15.2	12.0	2.5	2.2	2.0	1.8	3.9	-2.0	0.1	1.4	0.8	11.3	12.6	14.3
IDFC First (IDFBAN)	66	75	Buy	439	0.2	3.7	5.4	6.9	283.7	18.1	12.3	9.6	2.2	1.8	1.7	1.5	0.1	1.1	1.3	1.5	0.8	10.4	12.9	15.2
CreditAccess Grameen (CREDAG)	1,150	1,375	Buy	187	22.7	52.0	71.8	85.9	50.8	22.1	16.0	13.4	4.3	3.6	2.9	2.4	2.2	4.2	4.6	4.5	9.0	17.8	20.1	19.7

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
NII	619	461	34.2	541	14.5	Driven by strong busines growth and yield expansion
NIM (%)	12.2	11.3	90 bps	11.9	30 bps	Led by improvement in yields and steady CoF
Other Income	101	96	5.6	55	84.7	
Net Total Income	721	557	29.3	596	21.0	
Staff cost	135	112	19.8	127	5.8	
Other Operating Expenses	83	76	9.1	89	-6.4	CI ratio declined from 34% to 30.2% YoY
PPP	503	369	36.3	379	32.5	
Provision	105	151	-30.3	89	17.8	Gross credit cost stood steady QoQ at 0.6%.
PBT	398	218	82.5	290	37.1	
Tax Outgo	101	59	72.0	74	36.0	
PAT	297	159	86.4	216	37.5	PAT boosted by healthy topline and lower provisions
Key Metrics						
Gross loans (₹ crore)	21,031	16,600	26.7	17,786	18.2	Customer addition and increase in ticket size led to uptick in gross loans
Borrowers (nos '000)	4,264	3,824	11.5	3,939	8.3	Added 3.25 lakh borrowers in Q4FY23
Yields (%)	19.7	18.5	120 bps	19.6	10 bps	
GNPA (%)	1.21	3.61	-240 bps	1.71	-50 bps	Gradual improvement in asset quality

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY24E			FY25E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	2,397	2,642.1	10	2,953	3,214.8	9
Pre Provision Profit	1,725	1,909.6	11	2,164	2,345.0	8
NIM(%) (calculated)	10.7	11.3	55 bps	10.8	11.1	34 bps
PAT	970	1,140.5	18	1,250	1,365.2	9
ABV per share (₹)	363	393.1	8	443	479.1	8

Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Interest Earned	2,567	3,327	4,179	5,137
Interest Expended	984	1,213	1,537	1,923
Net Interest Income	1,583	2,114	2,642	3,215
% growth	16.3	33.5	25.0	21.7
Non Interest Income	183	224	212	223
Net Income	1,766	2,338	2,854	3,437
Employee cost	438	515	580	664
Other operating Exp.	251	316	364	429
Operating Profit	1,078	1,506	1,910	2,345
Provisions	597	401	389	525
PBT	481	1,105	1,521	1,820
Taxes	128	279	380	455
Net Profit	353	826	1,141	1,365
% growth	168.7	134.0	38.1	19.7
EPS (₹)	22.7	52.0	71.8	85.9

Source: Company, ICICI Direct Research

Exhibit 5: Key Ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
Valuation				
No. of Equity Shares	15.6	15.9	15.9	15.9
EPS (₹)	22.7	52.0	71.8	85.9
BV (₹)	267.3	321.4	393.1	479.1
ABV (₹)	267.3	321.4	393.1	479.1
P/E	48.0	20.9	15.1	12.7
P/BV	4.1	3.4	2.8	2.3
P/adj.BV	4.1	3.4	2.8	2.3
Yields & Margins (%)				
Yield on Advances	15.5%	15.8%	17.8%	17.8%
Avg. cost on funds	7.6%	7.5%	7.9%	8.1%
Net Interest Margins	10.5%	11.2%	11.3%	11.1%
Spreads	7.8%	8.3%	9.9%	9.7%
Quality and Efficiency				
Cost / Total net income	39.0%	35.6%	33.1%	31.8%
GNPA%	3.6%	1.2%	2.0%	1.8%
NNPA%	0.4%	0.0%	0.6%	0.5%
ROE (%)	9.0%	17.8%	20.1%	19.7%
ROA (%)	2.2%	4.2%	4.6%	4.5%

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Sources of Funds				
Capital	156	159	159	159
Reserves and Surplus	4,011	4,948	6,089	7,454
Networth	4,167	5,107	6,248	7,613
Borrowings	12,921	16,213	19,456	23,736
Other Liabilities & Provisions	394	538	1,793	2,126
Total	17,482	21,858	27,497	33,475
Applications of Funds				
Fixed Assets	32	32	37	42
Investments	-	455	455	455
Advances	14,765	19,043	23,696	29,040
Other Assets	2,685	2,328	3,310	3,938
Total	17,482	21,858	27,497	33,475

Source: Company, ICICI Direct Research

Exhibit 7: Growth				
(Year-end March)	FY22	FY23	FY24E	FY25E
%				
Total assets	16.1%	25.0%	25.8%	21.7%
Advances	26.0%	29.0%	24.4%	22.6%
Borrowings	18.2%	25.5%	20.0%	22.0%
Total Income	14.9%	32.4%	22.1%	20.5%
Net interest income	16.3%	33.5%	25.0%	21.7%
Operating expenses	17.6%	20.8%	13.5%	15.7%
Operating profit	13.2%	39.8%	26.8%	22.8%
Net profit	168.7%	134.0%	38.1%	19.7%
Book value	12.7%	20.2%	22.3%	21.9%
EPS	168.2%	129.5%	38.1%	19.7%

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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Name of the Compliance officer (Research Analyst): Mr. Anoop Goyal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Prabodh Avadhoot Email address: headservicequality@icicidirect.com Contact Number: 18601231122

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