

**Weak Quarter; PAR Accretion Likely to Peak Out in Q2, Credit Costs in Q3!**
**Est. Vs. Actual for Q2FY25:** NII – **BEAT**; PPOP – **INLINE**; PAT – **MISS**
**Changes in Estimates post Q2FY25**
**FY25E/FY26E/27E (in %):** NII: -3.5/-9.5/-10.6; PPOP: -4.8%/ -10.6/-11.8; PAT: -30.2/-16.1/-15.4

**Recommendation Rationale**

- **PAR accretion likely to have peaked out:** The rise in delinquencies, which the management believes are transient largely on account of (i) Disruption in repayments owing to 3<sup>rd</sup> party interventions, (ii) Tight liquidity conditions and cashflow constraints with a decline in disbursements and (iii) Impact of severe rainfall in several regions. However, the management is confident that this MFI downcycle should be short-lived and expects the fresh PAR accretion to stabilise by Q3FY24 and trends to improve from Q4FY24 onwards. The management indicated that the Oct'24 PAR trends are similar to marginally better vs Sep'24, and expects Nov'24 and Dec'24 PAR trends to show gradual improvement. In terms of Top-5 geographies, the core states of KA, MH, and MP continue to hold up well comparatively, while Bihar and TN exhibit higher stress. Moreover, the newer states are seeing elevated PAR levels and the company is pruning its exposure in these states (RJ, KL, GJ) in an accelerated manner. CAGrameen continues to intensify its collection efforts and strengthen underwriting capabilities. Early stress recognition and higher provisioning rates should help CAGrameen recognise a bulk (~80-90%) of the stress in FY25 to ensure minimal spillover into FY26.
- **Customer over-leveraging trends visible in newly sourced customers:** Currently, 12.6% of the customer base has exposure to >5 lenders vs ~8% in the previous year, while CAGrameen's unique customer base stands at ~27%. The PAR trends in the unique and CAGrameen +1 and +2 borrowers continue to remain healthy, while a significant deterioration is seen in the CAGrameen +3 and +4 borrower base. Similarly, customers with lower vintage (on-boarded in the past couple of years) exhibit weaker trends vs. customers with higher vintage. This is on account of the lower ticket size offered by the company in its first cycle, that customers tend to borrow from multiple lenders. The contribution of the CAGrameen +4 borrowers to PAR of ~4.9% is 1.5%.

**Sector Outlook: Cautious**

**Company Guidance:** Given current industry trends and short-term challenges encountered, CAG has revised its guidance for FY25 by trimming GLP growth to 8-12% vs. 23-24% earlier. However, on the operational front, the NIM and C-I Ratio guidance remains unchanged as NIMs are likely to remain healthy at 12.8-13% and the C-I Ratio remains steady at 30-32% during the year. Accounting for higher stress, the company has revised its credit cost guidance significantly upwards to 4.5-5% vs earlier guidance of 2.2-2.4%, thereby denting earnings growth. Resultantly, RoA/RoE is expected to range between 3.0-3.5%/12-14% in FY25. These estimates are based on CAGrameen expectations of delinquency stabilization in Q3FY25 and improvement in Q4FY25.

**Current Valuation: 1.65x Sep'26E BV Earlier Valuation: 2.4x FY26E BV**
**Current TP: Rs 1,100/share; Earlier TP: Rs 1,555/share**
**Recommendation:** We maintain our **BUY** recommendation on the stock.

**Alternative BUY Ideas from our Sector Coverage: Ujjivan SFB (TP – Rs 41/share)**
**Financial Performance:**

- **Operational Performance:** CAGrameen added 1.46 Lc borrowers during Q2FY25, taking the total customer base to ~4.9 Mn customers (+7% YoY). Disbursements de-grew by 11/2% YoY/QoQ owing to (i) Seasonally weaker Q2 caused by rains, (ii) Additional guardrails introduced by MFIN and (iii) Focus on controls and recoveries. Resultantly, AUM growth slowed down to 12% YoY and de-grew by 4% QoQ. The core MFI book de-grew by 5% QoQ, and the retail finance book continued to register healthy growth (+170/24% YoY/QoQ).
- **Financial Performance:** NII grew by 22/1% YoY/QoQ, supported by NIM expansion by 40bps QoQ, while AUM growth was muted. Opex growth stood modest at 14/1% YoY/QoQ. The C-I Ratio stood at 30.7% vs 31.7/29.2% YoY/QoQ. PPOP grew by 19% YoY but de-grew by 5% QoQ. Provisions shot up significantly by 2.4x QoQ, denting earnings growth. PAT grew by 46/53% YoY/QoQ. **Asset Quality** Deteriorated sharply with GNPA (60+dpd) at 2.44% vs. 1.46% and NNPA at 0.76% vs. 0.45% QoQ (PCR of 69%). Collection Efficiency (CE) excl-arrears dropped to 96.3% vs. 97.8% QoQ. PAR0 stood at 4.9% vs 2.5% QoQ.

**Key Financials (Consolidated)**

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	933.1	+0.7	+22.2	912.2	+2.3
PPOP	672.1	-5.2	+19.5	674.0	-0.3
Net Profit	420.2	-53.2	-46.4	318.9	-41.7
NNPA (%)	0.8	+31 bps	+52 bps	0.6	+14 bps
RoA (%)	2.7	-266 bps	-286 bps	4.5	-178 bps

Source: Company, Axis Securities Research

 (CMP as of 25<sup>th</sup> October, 2024)

CMP (Rs)	982
Upside /Downside (%)	12%
High/Low (Rs)	1,794/1,194
Market cap (Cr)	20,481
Avg. daily vol. (6m) Shrs.	3,13,179
No. of shares (Cr)	15.9

**Shareholding (%)**

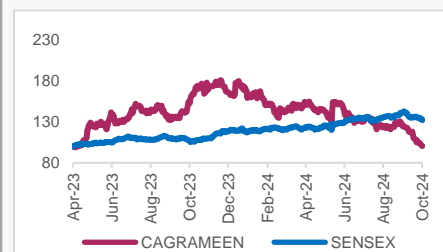
	Mar-24	Jun-24	Sep-24
Promoter	66.6	66.6	66.5
FII's	11.7	10.9	10.8
MFs / UTI	14.0	14.3	12.8
Others	7.7	8.2	9.9

**Financial & Valuations**

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
NII	3,795	4,354	5,308
PPOP	2,829	3,246	3,938
Net Profit	1,153	1,779	2,206
EPS (Rs)	72.3	111.6	138.4
BV (Rs)	484.5	596.2	734.6
P/BV (x)	2.0	1.6	1.3
RoA (%)	3.9	5.2	5.2
NNPA (%)	0.8	0.7	0.6

**Change in Estimates (%)**

Y/E Mar	FY25E	FY26E	FY27E
NII	-3.5	-9.5	-10.6
PPOP	-4.8	-10.6	-11.8
PAT	-30.2	-16.1	-15.4

**Relative Performance**


Source: AceEquity, Axis Securities Research

**Dnyanada Vaidya**

Research Analyst

Email: dnyanada.vaidya@axissecurities.in

**Pranav Nawale**

Research Associate

Email: pranav.nawale@axissecurities.in

## Outlook

- Factoring in growth headwinds and the cautious approach of the management, we trim our growth estimates sharply for FY25E and expect recovery from FY26 onwards. Resultantly, we lower our NII growth estimates by 4-10% over FY25-27E. Near-term challenges on credit costs will persist and dent earnings growth resulting in a sharp cut of ~30% on our FY25 earnings estimates and a 15-16% cut on our FY26-27E estimates.

## Valuation & Recommendation

- We value CAGrameen at 1.65x Sep'26E BV vs. its current valuation of 1.5x FY26E BV to arrive at a revised target price of Rs 1,100/share, implying an upside of 12% from the CMP. The stock has already corrected by ~33% in the last 6 months anticipating elevated asset quality concerns and a slowdown in growth. **We maintain our BUY recommendation on the stock.**

## Key Highlights

- Near-term challenges on growth; Medium-Term Guidance stays:** CAGrameen has reiterated its guidance of scaling the book to Rs 50,000 Cr by FY25. While near-term headwinds will restrict growth in FY25, the management expects growth momentum to resume from FY26 onwards. As a matter of caution, the company has segregated its branches into stable and non-stable. The company will continue to pursue growth in the stable branches with stable centers while the focus will remain on improving collections in the non-stable branches non-stable centers. The management is currently under contention to gradually restart non-stable branches with stable centers. Currently, ~73% of the centres have 0dpd (accounting for ~40-5% branch network). With PAR trends expected to stabilise and improve by Dec'24, the management remains confident of disbursement growth improving over the last 4 months in FY25, enabling the company to drive GLP growth of 8-12%. CAGrameen has been able to source 50-60K new customers in compliance with the new stringent guardrails by MFI. Additionally, given healthy asset quality trends in the retail finance portfolio, the management remains confident of scaling up the book to ~15% of the mix by FY28. **We expect CAGrameen to deliver 17% CAGR over FY24-27E, given slower growth in FY25E.**

## Key Risks to Our Estimates and TP

- The key risk to our estimates remains a slowdown in overall disbursement and AUM growth which could potentially derail our earnings estimates.
- Slowdown in growth momentum in newer geographies or inability to scale up business in new geographies.
- Continued Asset Quality concerns could impact credit costs and thereby weigh on earnings growth.

## Change in Estimates

	Revised			Old			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
NII	3,795	4,354	5,308	3,934	4,811	5,936	-3.5	-9.5	-10.6
PBP	2,829	3,246	3,938	2,973	3,629	4,466	-4.8	-10.6	-11.8
Provisions	1,276	868	989	765	795	982	66.8	9.2	0.8
PAT	1,153	1,779	2,206	1,651	2,120	2,606	-30.2	-16.1	-15.4

Source: Axis Securities Research

**Results Review (Consolidated)**

	Q2FY25	Q2FY24	% YoY	Q1FY25	% QoQ	H1FY25	H1FY24	% YoY
Net Interest Income	933	764	22.2	927	0.7	1860	1484	25.3
Non-Interest Income	36	60	-39.9	75	-52.0	112	126	-11.2
Operating expenses	297	261	13.8	293	1.4	590	503	17.3
Staff Cost	189	162	16.7	188	0.6	377	318	18.4
Pre provision profits	672	563	19.5	709	-5.2	1381	1106	24.9
Provisions and contingencies	420	96	338.3	175	140.6	595	172	245.3
PBT	252	467	-46.0	535	-52.9	787	934	-15.8
Provision for Tax	66	120	-44.9	137	-51.9	203	239	-14.9
PAT	186	347	-46.4	398	-53.2	826	353	134.0
<b>Business Update</b>								
Disbursements	4,404	4,966	-11.3	4,476	-1.6	8,880	9,737	-8.8
AUM	25,133	22,488	11.8	26,304	-4.5	25,133	22,488	11.8
MFI	24,189	22,139	9.3	25,542	-5.3	24,189	22,139	9.3
Retail Finance	944	349	170.5	762	23.9	944	349	170.5
Cost-Income ratio (%)	30.7	31.7	-104bps	29.2	143bps	29.9	31.2	131bps
Yields (%)	21.1	21.1	0bps	21.0	10bps	18.9	18.3	-60bps
Cost of Funds (%)	9.8	9.8	0bps	9.8	0bps	9.4	9.3	-10bps
NIMs (%)	13.5	13.1	40bps	13.0	50bps	11.6	10.9	-70bps
<b>Asset Quality</b>								
Gross NPA (%)	2.4	0.8	167bps	1.5	98bps	2.4	0.8	167bps
Net NPA (%)	0.8	0.2	52bps	0.5	31bps	0.8	0.2	52bps
PCR (%)	68.9	68.8	2bps	69.2	-33bps	68.9	68.8	2bps
<b>Capital Adequacy</b>								
CRAR	26.1	25.0	110bps	25.2	90bps	26.1	25.0	110bps
Tier I	25.2	24.1	110bps	24.3	90bps	25.2	24.1	110bps
Tier II	0.9	0.9	0bps	0.9	0bps	0.9	0.9	0bps

Source: Company, Axis Securities Research

## Financials (Consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
Net Interest Income	3,168	3,795	4,354	5,308
Non-Interest Income	273	280	372	406
<b>Total Income</b>	<b>3,440</b>	<b>4,075</b>	<b>4,725</b>	<b>5,714</b>
Operating Expenses	1,049	1,246	1,480	1,776
<b>Pre-Provision Profits</b>	<b>2,391</b>	<b>2,829</b>	<b>3,246</b>	<b>3,938</b>
Provisions	452	1,276	868	989
<b>PBT</b>	<b>1,939</b>	<b>1,553</b>	<b>2,378</b>	<b>2,949</b>
Tax	493	401	599	743
<b>Profit After Tax</b>	<b>1,446</b>	<b>1,153</b>	<b>1,779</b>	<b>2,206</b>

Source: Company, Axis Securities Research

### Balance Sheet

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
Equity Share Capital	159	159	159	159
Reserves & Surplus	6,411	7,563	9,342	11,548
<b>Net Worth</b>	<b>6,570</b>	<b>7,723</b>	<b>9,502</b>	<b>11,707</b>
Borrowings	21,841	22,988	27,801	34,029
Other Liabilities	435	470	571	701
<b>Total Liabilities</b>	<b>28,846</b>	<b>31,181</b>	<b>37,874</b>	<b>46,437</b>
Cash & Bank balances	1,314	921	1,119	1,372
Investments	1,439	1,555	1,889	2,316
Goodwill	376	376	376	376
Loans	25,105	26,999	32,904	40,459
Fixed Assets & Others	613	1,330	1,586	1,914
<b>Total Assets</b>	<b>28,846</b>	<b>31,181</b>	<b>37,874</b>	<b>46,437</b>

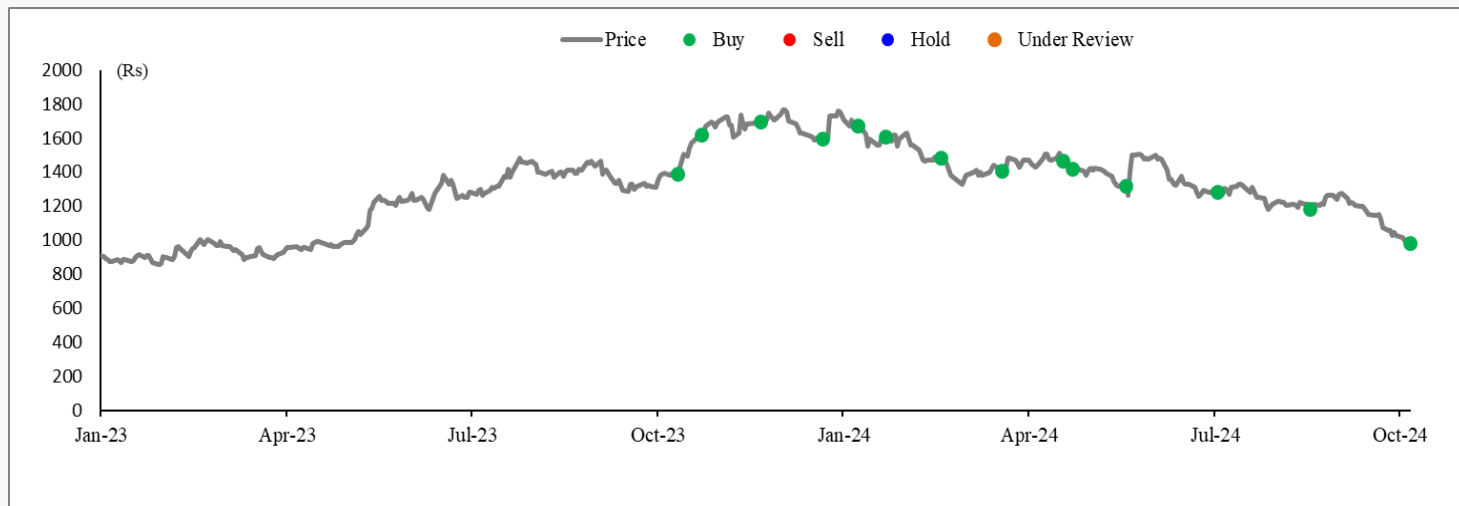
Source: Company, Axis Securities Research

**Ratio Analysis**
**(%)**

Y/E March	FY24	FY25E	FY26E	FY27E
<b>Asset Quality</b>				
GNPA	303	720	779	780
NNPA	88	216	234	234
GNPA Ratio (%)	1.2	2.6	2.3	1.9
NNPA Ratio (%)	0.4	0.8	0.7	0.6
PCR (%)	70.8	70.0	70.0	70.0
Credit Costs (%)	2.0	4.9	2.9	2.7
<b>Profitability &amp; Efficiency Ratios</b>				
Net Interest Margin (%) – (on. Avg on-book AUMs)	13.0	13.3	13.3	13.3
RoA	5.7	3.9	5.2	5.2
RoE	24.8	16.3	20.7	20.8
Cost to Assets	4.1	4.2	4.3	4.2
Cost to Income	30.5	30.6	31.3	31.1
CRAR (%)	23.1	23.6	24.0	23.0
Tier I (%)	22.2	22.8	23.2	22.3
<b>Balance Sheet Structure Ratios (%)</b>				
GLP Growth (%)	27.0	7.5	21.9	23.0
Borrowing Growth (%)	33.9	5.3	20.9	22.4
Equity/Assets (%)	22.8	24.8	25.1	25.2
Equity/Loans (%)	26.2	28.6	28.9	28.9
<b>Valuation</b>				
EPS (INR)	90.7	72.3	111.6	138.4
Change (%)	74.5	-20.3	54.3	24.0
BV per share	412.2	484.5	596.2	734.6
Adj. BV per share	406.7	471.0	581.5	719.9
Price-Earnings (x)	10.8	13.6	8.8	7.1
Price-BV (x)	2.4	2.0	1.6	1.3
Price-ABV (x)	2.4	2.1	1.7	1.4
<b>DuPont Analysis – RoE Tree (%)</b>				
NII	12.5	12.6	12.6	12.6
Non-Interest Income	1.1	0.9	1.1	1.0
Opex	4.1	4.2	4.3	4.2
Provisions	1.8	4.3	2.5	2.3
Tax	1.9	1.3	1.7	1.8
RoA	5.7	3.9	5.2	5.2
Leverage	4.3	4.2	4.0	4.0
RoE	24.8	16.3	20.7	20.8

Source: Company, Axis Securities Research

## CreditAccess Grameen Price Chart and Recommendation History



Date	Reco	TP	Research
08-Feb-23	BUY	1,215	Result Update
17-May-23	BUY	1,315	Result Update
19-May-23	BUY	1,315	Result Update
01-Jun-23	BUY	1,400	Top Picks
01-Jul-23	BUY	1,400	Top Picks
24-Jul-23	BUY	1,600	Result Update
01-Aug-23	BUY	1,600	Top Picks
01-Sep-23	BUY	1,600	Top Picks
03-Oct-23	BUY	1,600	Top Picks
23-Oct-23	BUY	1,600	Result Update
01-Nov-23	BUY	1,875	Top Picks
01-Dec-23	BUY	1,935	Top Picks
01-Jan-24	BUY	1,935	Top Picks
20-Jan-24	BUY	1,970	Result Update
02-Feb-24	BUY	1,970	Top Picks
01-Mar-24	BUY	1,970	Top Picks
01-Apr-24	BUY	1,970	Top Picks
02-May-24	BUY	1,970	Top Picks
08-May-24	BUY	1,900	Result Update
03-Jun-24	BUY	1,900	Top Picks
22-Jul-24	BUY	1,900	Result Update
05-Sep-24	BUY	1,555	Company Update
28-Oct-24	BUY	1,100	Result Update

Source: Axis Securities Research

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Compliance Officer Details: Name – Mr. Maneesh Mathew, Tel No. – 022-68555574, Email id – [compliance.officer@axisdirect.in](mailto:compliance.officer@axisdirect.in);

Registered Office Address – Axis Securities Limited, Unit No.002, Building- A, Agastya Corporate Park, Piramal Realty, Kamani Junction, Kurla (W), Mumbai – 400070.

Administrative office address: Axis Securities Limited, Aurum Q Parc, Q2 Building, Unit No. 1001, 10th Floor, Level – 6, Plot No. 4/1 TTC, Thane – Belapur Road, Ghansoli, Navi Mumbai, Pin Code – 400710.

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#### RATING SCALE: Definitions of ratings

Ratings	Expected absolute returns over 12 – 18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.