

Weak Quarter, Hopes Pinned on Normalised Profitability from Q2FY26!
Est. Vs. Actual for Q3FY25: NII – MISS; PPOP – MISS; PAT – MISS
Changes in Estimates post Q3FY25
FY25E/FY26E/27E (in %): NII: -5.0/-9.1/-12.9; PPOP: -6.3/-11.1/-14.3; PAT: -62.8/-27.2/-25.8
Recommendation Rationale

- **Pace of PAR accretion showing signs of deceleration:** CAGrameen has seen fresh PAR accretion slowdown from mid-Nov'24 across most key geographies. The peaking out of fresh PAR accretion was delayed by ~4 weeks (earlier anticipated to peak out on Sep'24) due to the temporary impact of festivities, heavy rains, cyclones, and localised disruptions. The strong trend reversal in Dec'24/Jan'25, can be taken as an indication of reversion to normalised PAR accretion rate by Q4FY25 or Q1FY26. CAGrameen has also seen the roll-forward rate reduced in the PAR1-60 bucket, with ~40% of borrowers making partial repayments. This improvement can be credited to the experienced collection teams deployed to support collections in critical locations. The X-bucket collection efficiency (CE) stood at 99.2% in Dec'24, with an improving trend visible in Jan'25. The X-bucket CE has improved from 98.7-98.8% over Oct-Nov'24. As a part of early risk recognition and conservative provisioning policy, the company has undertaken accelerated write-off of loan accounts with 180+ dpd and non-paying. It will continue to undertake accelerated write-offs over Q4FY25 and Q1FY26 to normalise the asset quality by Q1FY26.
- **Anticipating no meaningful impact of MFIN guardrails 2.0:** The company expects minimal impact from implementing MFIN 2.0 guardrails. Among the 23.6% of borrowers exposed to more than three lenders, ~84% have started repaying promptly as of Dec'24, which is expected to gradually reduce leverage and make them eligible for future loans. Additionally, around 30% of this cohort has unsecured indebtedness exceeding Rs 2 Lc. Based on its internal assessment, CAGrameen remains confident of retaining over 80% of customers with exposure to four or five lenders. The new MFIN guardrails are already being applied to newly sourced customers, ensuring compliance and sustainable portfolio quality.

Sector Outlook: Cautious

Company Guidance: Owing to a weak performance in Q3FY25 and normalisation visible only after Q1FY26, the company has revised its GLP growth guidance downwards to 7-8%, backed by improving disbursements trends visible over Dec'24-Jan'25. To account for the asset quality stress, the credit cost guidance has been revised upwards to 6.7-6.9% from 4.5-5% earlier. CAGrameen has taken a 25bps increase in ECL rates, a 50-60bps increase due to accelerated write-offs in Q3/Q4FY25, and a 100-125 bps increase due to 3-4 weeks of delay in delinquency trend reversal. Due to weaker growth and elevated credit costs, RoA/RoE guidance is revised to 2.3-2.4%/9.5-10% for FY25. However, preliminary trends are encouraging, and the management expects FY26 GLP growth to range between 18-20%. Accelerated write-offs would be completed in Q1FY26, with a normalised pace of profitability commencing from Q2FY26 onwards. Credit costs for FY26 are viewed at 3-3.5%. For FY26, RoA/RoE is expected to range between 4.2-4.5%/17-19%.

Current Valuation: 1.7x Sep'26E BV Earlier Valuation: ~1.7x FY26E BV
Current TP: Rs 975/share; Earlier TP: Rs 1,100/share
Recommendation: We **revise** our rating from BUY to **HOLD**.

Alternative BUY Ideas from our Sector Coverage
Ujjivan SFB (TP – Rs 39/share)
Financial Performance:

- **Operational Performance:** CAGrameen added ~1.52 Lc borrowers during the quarter, of which ~42% were new-to-credit customer. The total customer base stands at ~4.8 Mn customers (+2.4% YoY, -2.6% QoQ). In the past year, 48.6% of the new customer additions have been from outside Top-3 states. Disbursements growth tapered YoY though improved QoQ, with pace picking up in Dec'24. MFI GLP growth stood at 3% YoY but de-grew by 3% QoQ. The retail finance continues to grow at a healthy pace, registering a growth of 153/32% YoY/QoQ, albeit on a smaller base. Total AUM growth was muted at 6% YoY and de-grew by 1% QoQ.
- **Financial Performance:** NII growth faltered and de-grew by 8% QoQ owing to weak GLP growth, excess liquidity and elevated slippages resulting in higher interest reversals. NIMs declined sharply by 100bps QoQ and stood at 12.5%. The company opened 30 new branches during the quarter. Opex growth was muted, growing at 13% YoY and de-grew by 4% QoQ. This was mainly due to lower employee expenses (de-grew by 6% QoQ, possibly due to lower business volumes). Despite this, C-I Ratio increased to 31.3% from 30.7% QoQ, owing to weak to-line growth. PPOP de-grew by 7% QoQ. Provisions increased significantly, with Credit costs standing at 12.0% vs 2.2/6.5% YoY/QoQ. This weighed on earnings for the company, which reported a loss during the quarter.
- **Asset Quality** deteriorated sharply, with GNPA/NNPA at 3.99/1.28% vs 2.44/0.76% QoQ. The pace of PAR accretion seems to have peaked out in Oct'24. PAR during Nov'24 was stable despite festivals, heavy rains, cyclones, and localised disruptions. The collection efficiency of X-bucket was over 99.2% for Dec'24, and an improving trend was visible in Jan'25.

Key Financials (Consolidated)

(Rs Cr)	Q3FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	863	-7.5	+7.5	919	-6.2
PPOP	623	-7.3	+3.5	657	-5.1
Net Profit	-100	-153.5	-128.2	135	-173.6
NNPA (%)	1.3	+52 bps	+99 bps	0.9	+43 bps
RoA (%)	-1.5	-421 bps	-697 bps	2.0	-349 bps

Source: Company, Axis Securities Research

 (CMP as of 24th January, 2025)

CMP (Rs)	914
Upside /Downside (%)	7%
High/Low (Rs)	1660/810
Market cap (Cr)	14,586
Avg. daily vol. (6m) Shrs.	7,94,299
No. of shares (Cr)	16.0

Shareholding (%)

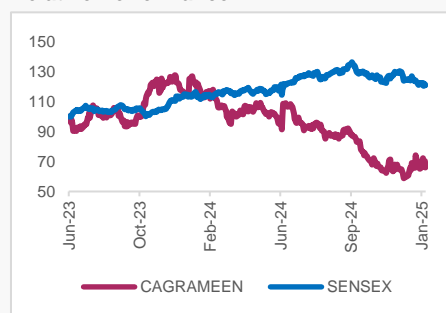
	Jun-24	Sep-24	Dec-24
Promoter	66.6	66.5	66.5
FIIIs	10.9	10.8	9.8
MFs / UTI	14.3	12.8	12.0
Others	8.2	9.9	11.7

Financial & Valuations

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
NII	3,605	3,959	4,625
PPOP	2,651	2,887	3,373
Net Profit	429	1,296	1,636
EPS (Rs)	26.9	81.3	102.7
BV (Rs)	424.8	505.0	607.6
P/BV (x)	2.1	1.8	1.5
RoA (%)	1.5	3.9	4.3
NNPA (%)	0.9	0.8	0.7

Change in Estimates (%)

Y/E Mar	FY25E	FY26E	FY27E
NII	-5.0	-9.1	-12.9
PPOP	-6.3	-11.1	-14.3
PAT	-62.8	-27.2	-25.8

Relative Performance


Source: AceEquity, Axis Securities Research

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Key Highlights

- **Near-term growth challenges, FY26 growth guidance showing healthier growth:** CAGrameen's preliminary analysis for FY26 shows confidence in delivering GLP growth of 18-20%. The management alluded that a majority of the growth (~60% of growth) is driven by customer retention. Additionally, the company is resuming its growth momentum in terms of new customer additions, with Dec'24 adding 70K customers and the run-rate improving to 80K customers in Jan'25E, against a normalised monthly run-rate of 100K new customers. Additionally, the share of new-to-credit customers in the new customer sourcing has improved from 35% to 42% in Dec'25. CAGrameen has also seen an improving trend in terms of disbursements, picking up from 50-60% of normalised rates over Jul-Nov'24 to 80% in Dec '24 and further improving to 90% in Jan'25. Thus, the management is confident that the MFI book will clock a GLP growth of 15-16% in FY26 and will continue robust growth in the retail finance book, with its portfolio mix gradually improving.
- **Impact of MFIN Guardrails 1.0:** There has been a significant de-leveraging of both in terms of the customer base and loan portfolio due to the implementation of MFIN Guardrails 1.0. In the cohort of customers having exposure to over 4 lenders (CAGrameen +3), the share of the portfolio has reduced from 25.3% in Aug'24 to 18.8% in Dec'24. Furthermore, the deleveraging trend is clearly evident in the cohort of borrowers with an unsecured indebtedness over Rs 2 Lc, which includes microfinance and unsecured retail loans with AUM declining from 19.1% in Aug'24 to 13.3% in Dec'24, reflecting a sharp reduction in exposure to this segment.

Outlook

Currently, though trends seem to have stabilised and are showing a gradual recovery, we await better clarity on their sustenance. Factoring in significantly slower growth and elevated credit costs over the next couple of quarters, we hack our earnings estimates by 63% in FY25 and 25-27% over FY26-27E. We expect a gradual recovery in RoA/RoE to 3.9-4.3%/16-18% over FY26-27E. Faster recovery in asset quality remains a key upside risk.

Valuation & Recommendation

We value CAGrameen at 1.7x Sep'26E BV vs. its current valuation of 1.5x FY26E BV, to arrive at a revised target price of Rs 975/share, implying an upside of 7% from the CMP. **We revise our rating on the stock to HOLD from BUY earlier.**

Key Risks to Our Estimates and TP

- The key risk to our estimates remains a slowdown in overall disbursement and AUM growth, potentially derailing 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, weighing on earnings growth.

Change in Estimates

	Revised			Old			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
NII	3,605	3,959	4,625	3,795	4,354	5,308	-5.0	-9.1	-12.9
PBP	2,651	2,887	3,373	2,829	3,246	3,938	-6.3	-11.1	-14.3
Provisions	2,073	1,155	1,186	1,276	868	989	62.5	33.1	19.9
PAT	429	1,296	1,636	1,153	1,779	2,206	-62.8	-27.2	-25.8

Source: Axis Securities Research

Results Review (Consolidated)

	Q3FY25	Q3FY24	% YoY	Q2FY25	% QoQ	9MFY25	9MFY24	% YoY
Net Interest Income	863	803	7.5	933	-7.5	2723	2287	19.1
Non-Interest Income	44	51	-12.9	36	22.5	156	177	-11.7
Operating expenses	284	252	12.8	297	-4.4	874	755	15.8
Staff Cost	178	157	13.8	189	-5.5	555	475	16.9
Pre provision profits	623	602	3.5	672	-7.3	2004	1708	17.3
Provisions and contingencies	752	126	495.8	420	79.0	1347	298	351.2
PBT	-129	476	-127.1	252	-151.2	658	1410	-53.3
Provision for Tax	-29	122	-124.1	66	-144.6	174	361	-51.9
PAT	-100	353	-128.2	186	-153.5	826	353	134.0
Business Update								
Disbursements	5,085	5,344	-4.8	4,404	15.5	13,965	15,081	-7.4
AUM	24,810	23,383	6.1	25,133	-1.3	24,810	23,383	6.1
MFI	23,565	22,891	2.9	24,189	-2.6	23,565	22,891	2.9
Retail Finance	1,245	492	153.0	944	31.9	1,245	492	153.0
Cost-Income ratio (%)	31.3	29.5	181bps	30.7	67bps	30.4	30.7	27bps
Yields (%)	20.2	21.0	-80bps	21.1	-90bps	18.9	18.3	-60bps
Cost of Funds (%)	9.8	9.8	0bps	9.8	0bps	9.4	9.3	-10bps
NIMs (%)	12.5	13.1	-60bps	13.5	-100bps	11.6	10.9	-70bps
Asset Quality								
Gross NPA (%)	4.0	1.0	302bps	2.4	155bps	4.0	1.0	302bps
Net NPA (%)	1.3	0.3	99bps	0.8	52bps	1.3	0.3	99bps
PCR (%)	67.5	70.1	-257bps	68.9	-132bps	67.5	70.1	-257bps
Capital Adequacy								
CRAR	25.9	24.5	140bps	26.1	-20bps	25.9	24.5	140bps
Tier I	24.7	23.6	110bps	25.2	-50bps	24.7	23.6	110bps
Tier II	1.2	0.9	30bps	0.9	30bps	1.2	0.9	30bps

Source: Company, Axis Securities Research

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
Net Interest Income	3,168	3,605	3,959	4,625
Non-Interest Income	273	245	312	345
Total Income	3,440	3,850	4,271	4,970
Operating Expenses	1,049	1,199	1,384	1,597
Pre-Provision Profits	2,391	2,651	2,887	3,373
Provisions	452	2,073	1,155	1,186
PBT	1,939	578	1,733	2,187
Tax	493	149	437	551
Profit After Tax	1,446	429	1,296	1,636

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	6,839	8,135	9,771
Net Worth	6,570	6,999	8,295	9,931
Borrowings	21,841	23,067	26,481	31,100
Other Liabilities	435	461	533	628
Total Liabilities	28,846	30,527	35,308	41,659
Cash & Bank balances	1,314	902	1,043	1,231
Investments	1,439	1,523	1,761	2,078
Goodwill	376	376	376	376
Loans	25,105	26,421	30,640	36,244
Fixed Assets & Others	613	1,305	1,488	1,731
Total Assets	28,846	30,527	35,308	41,659

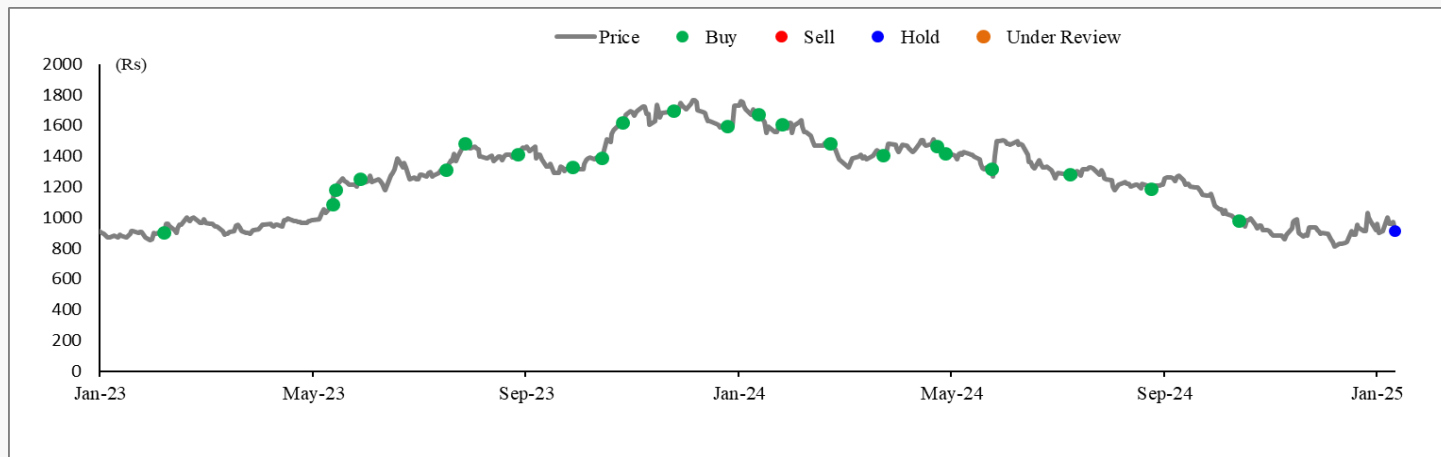
Source: Company, Axis Securities Research

Ratio Analysis
(%)

Y/E March	FY24	FY25E	FY26E	FY27E
Asset Quality				
GNPA	303	1,217	1,060	943
NNPA	88	365	318	283
GNPA Ratio (%)	1.2	4.5	3.4	2.5
NNPA Ratio (%)	0.4	1.4	1.0	0.8
PCR (%)	70.8	70.0	70.0	70.0
Credit Costs (%)	2.0	8.0	4.0	3.5
Profitability & Efficiency Ratios				
Net Interest Margin (%) – (on. Avg on-book AUMs)	13.0	12.7	12.7	12.7
RoA	5.7	1.5	3.9	4.3
RoE	24.8	6.4	16.9	18.0
Cost to Assets	4.1	4.0	4.2	4.1
Cost to Income	30.5	31.1	32.4	32.1
CRAR (%)	23.1	22.7	22.4	21.7
Tier I (%)	22.2	21.8	21.7	21.0
Balance Sheet Structure Ratios (%)				
GLP Growth (%)	27.0	5.2	16.0	18.3
Borrowing Growth (%)	33.9	5.6	14.8	17.4
Equity/Assets (%)	22.8	22.9	23.5	23.8
Equity/Loans (%)	26.2	26.5	27.1	27.4
Valuation				
EPS (INR)	90.7	26.9	81.3	102.7
Change (%)	74.5	-70.3	202.3	26.2
BV per share	412.2	439.1	520.4	623.1
Adj. BV per share	406.7	416.2	500.5	605.3
Price-Earnings (x)	10.1	34.0	11.2	8.9
Price-BV (x)	2.2	2.1	1.8	1.5
Price-ABV (x)	2.2	2.2	1.8	1.5
DuPont Analysis – RoE Tree (%)				
NII	12.5	12.1	12.0	12.0
Non-Interest Income	1.1	0.8	0.9	0.9
Opex	4.1	4.0	4.2	4.1
Provisions	1.8	7.0	3.5	3.1
Tax	1.9	0.5	1.3	1.4
RoA	5.7	1.5	3.9	4.3
Leverage	4.3	4.4	4.3	4.2
RoE	24.8	6.4	16.9	18.0

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	1,670	Result Update
01-Nov-23	BUY	1,935	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
01-Feb-24	BUY	1,970	Top Picks
01-Mar-24	BUY	1,970	Top Picks
01-Apr-24	BUY	1,970	Top Picks
01-May-24	BUY	1,970	Top Picks
07-May-24	BUY	1,900	Result Update
01-Jun-24	BUY	1,900	Top Picks
22-Jul-24	BUY	1,700	Result Update
05-Sep-24	BUY	1,555	Company Update
28-Oct-24	BUY	1,100	Result Update
27-Jan-25	HOLD	975	Result Update

Source: Axis Securities Research

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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.