

## Business Momentum and Collections Improve MoM!

CreditAccess Grameen Ltd. (CAG) in its mid-quarter business update reported an improvement in collections as well as business momentum. The disbursements momentum, which picked up in Jul'21 post the phased unlock across geographies, continued in Aug'21 as well and we expect the same to continue going ahead.

- Disbursements momentum remain strong**– The company had indicated that Jul'21 disbursements witnessed a strong rebound. The growth momentum has improved going into Aug'21 with the weakening of COVID 2.0. In Aug'21, disbursements stood at Rs 1,188 Cr (+200% YoY, +7.3% MoM) vs Rs 1,107 Cr in Jul'21 and Rs 308 Cr in Jun'21 for CAG. However, disbursements continue to remain marginally below Mar'21 levels (Rs 1,577 Cr). Strong growth in disbursements resulted in the GLP growth pick-up. GLP stood at Rs 11,155 Cr (+18.8% YoY, +5% MoM)
- MMFL disbursals grow tepid**– Madura Microfinance (MMFL) disbursed loans worth Rs 145 Cr (+63% YoY, -4.6% MoM). A muted disbursements growth resulted in a tepid GLP growth of 7% YoY and 3% MoM. GLP stood at Rs 2,104 Cr. **The management has indicated that slower growth in H1FY22 was due to the transitory learning curve on account of process integration and a slight delay in training & resource availability due to COVID-19. Growth is expected to pick up from H2FY22 onwards.**
- Collections improve across geographies for CAG** – CAG (Standalone) has witnessed a significant improvement in the overall Collection Efficiency (CE) to 92.5% in Aug'21 from 81% in Jun'21. CE (incl arrears) stood at 99% in Aug'21 vs 84% in Jun'21. It improved across key geographies and neared Mar'21 levels. Maharashtra's CE continued to remain marginally sub-par at 89% vs other states with an average CE of ~91-92%. Improving collections have dropped the proportion of non-paying customers from 12.3% in Jun'21 to 5.6% in Aug'21. Non-payment customers in Mar'21 stood at 1.9%
- MMFL collections improve though remain sub-par** – CE improved from 66% in Jun'21 to 86% in Aug'21. CE (incl arrears) stood at 87% in Aug'21 vs 66% in Jun'21. The share of non-paying customers has dropped from 6.5% in Jul'21 to 4.5% in Aug'21 as a result of an MoM improvement in the collections. The key geographies of Tamil Nadu and Maharashtra continue to lag in terms of collections while CE of other geographies near Mar'21 levels.
- Portfolio Quality improving** – For CAG, the asset quality recovery trend looks encouraging with PAR0 dropping to 15.9% in Aug'21 vs 30.6% in Jun'21. PAR60 inched up marginally to 8.3% in Aug'21 vs 7.8% in Jun'21 backed by an inch-up in the PAR60 in the key states of Karnataka and Tamil Nadu. The asset quality trend in MMFL continues to remain worrisome with PAR90 inching up from 4.9% in Jun'21 to 7.3% in Aug'21.
- Branch network expansion** – The company has added 103 branches during Jul'21 (+66) and Aug'21 (+37), thus taking the total branch count to 1,467.

## Valuation & Outlook

The improving collections and pick-up in the business momentum in CAG are encouraging and we believe that as the COVID 2.0-related headwinds recede, CAG would be able to further improve its performance. The subdued growth in MMFL along with deteriorating asset quality trends continue to remain a cause of concern. However, taking cues from the experience of tackling COVID 1.0 stress, we remain confident in CAGs robust business model and proactive approach of the management in identifying and accounting for stress. The possibility of COVID 3.0 remains a key downside risk and may push back growth and impact asset quality. **We maintain our BUY recommendation on the stock and with a target price of Rs 745/share, implying an upside of 10% from CMP. We value CAG at 2.5x FY23E BV and believe that our target multiple reflects the superior return profile (achieving ~16% ROE by FY23E and improving thereafter) and the inherent risks in the MFI business.**

## Key Financials (Consolidated)

(Rs Cr)	FY20	FY21	FY22E	FY23E
NII	1,053	1,359	1,620	1,958
PPOP	699	952	1,006	1,214
Net Profit	335	131	276	674
EPS (Rs.)	23.3	8.4	17.7	43.3
BV	195.1	237.3	255.0	298.3
P/BV	3.6	3.0	2.7	2.3
GNPA (%)	1.6%	4.4%	4.6%	2.7%
ROA (%)	3.4%	1.0%	1.7%	3.6%
ROE (%)	12.9%	4.1%	7.2%	15.7%

Source: Company, Axis Research

(CMP as of Sep 03, 2021)

CMP (Rs)	680
Upside/Downside (%)	10%
High/Low (Rs)	839/541
Market cap (Cr)	10,582
Avg. daily vol. (6m) Shrs.	2,19,813
No. of shares (Cr)	15.6

## Shareholding (%)

	Jun-21	Mar-21	Dec-20
Promoter	74.0	74.0	74.0
FIs	10.1	10.1	9.5
MFs / Fls	7.1	6.5	6.8
Others	8.8	9.5	9.7

## Financial & Valuations

Y/E Mar (Rs. Cr)	FY21	FY22E	FY23E
NII	1,359	1,620	1,958
PPOP	952	1,006	1,214
Net Profit	131	276	674
EPS (Rs.)	8.4	17.7	43.3
BV	237.3	255.0	298.3
P/BV	3.0	2.7	2.3
ROAA	1.0%	1.7%	3.6%
GNPA (%)	4.4%	4.6%	2.7%

## Change in Estimates (%)

Y/E Mar	FY22E	FY23E
NII	-	-
PPOP	-	-
PAT	-	-

## ESG disclosure Score\*\*

Environmental Disclosure	N.A
Social Disclosure Score	N.A
Governance Disclosure Score	N.A
Total ESG Disclosure Score	N.A

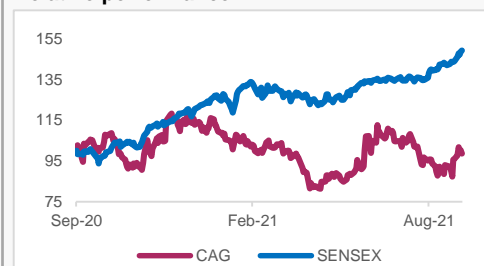
Source: Bloomberg, Scale: 0.1-100

\*\*Note: This score measures the amount of ESG data a company reports publicly, and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

## Axis vs. Consensus

EPS Estimates	2022E	2023E
Axis	17.7	43.3
Consensus	30.2	50.8
Mean Consensus TP (12M)		780

## Relative performance



Source: Capitaline, Axis Securities

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## Collection improvement Trends

Exhibit 1: CreditAccess Grameen (Standalone) collection improvement trend

	June'20	July'20	Aug'20	Sept'20	Oct'20	Dec'20	Jan'21	Feb'21	Mar'21	Jun'21	Jul'21	Aug'21
	COVID 1.0 Unlock					COVID 2.0				COVID 2.0 Unlock		
Karnataka	78%	78%	86%	91%	92%	93%	95%	95%	96%	76%	92%	94%
Maharashtra	62%	65%	72%	80%	81%	86%	88%	89%	90%	84%	88%	89%
Tamil Nadu	75%	79%	86%	94%	94%	94%	94%	95%	95%	78%	90%	93%
Madhya Pradesh	81%	88%	88%	91%	92%	92%	93%	94%	94%	87%	90%	90%
Others	86%	87%	87%	92%	92%	94%	95%	96%	97%	96%	97%	98%
<b>Overall CE - CAG</b>	<b>74%</b>	<b>76%</b>	<b>82%</b>	<b>88%</b>	<b>89%</b>	<b>91%</b>	<b>93%</b>	<b>93%</b>	<b>94%</b>	<b>81%</b>	<b>91%</b>	<b>93%</b>

Source: Company, Axis Securities

Exhibit 2: Madura Microfinance collection improvement trend

	June'20	July'20	Aug'20	Sept'20	Oct'20	Mar'21	Jun'21	Jul'21	Aug'21
	COVID 1.0 Unlock					COVID 2.0		COVID 2.0 Unlock	
Tamil Nadu	54%	66%	77%	83%	85%	90%	61%	82%	86%
Maharashtra	45%	56%	72%	76%	78%	84%	75%	76%	76%
Odisha	43%	43%	63%	81%	85%	92%	89%	94%	94%
Bihar	66%	75%	71%	86%	91%	94%	87%	91%	91%
Others	60%	68%	74%	85%	88%	93%	55%	78%	84%
<b>Total</b>	<b>54%</b>	<b>64%</b>	<b>75%</b>	<b>83%</b>	<b>85%</b>	<b>90%</b>	<b>66%</b>	<b>83%</b>	<b>86%</b>

Source: Company, Axis Securities

## Financials (Consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY20	FY21	FY22E	FY23E
Interest Earned	1,633	2,290	2,674	3,209
Interest Expended	580	929	1,054	1,251
<b>Net Interest Income</b>	<b>1,053</b>	<b>1,361</b>	<b>1,620</b>	<b>1,958</b>
Other Income	68	176	134	153
<b>Total Income</b>	<b>1,121</b>	<b>1,537</b>	<b>1,754</b>	<b>2,111</b>
<b>Total Operating Exp</b>	<b>428</b>	<b>586</b>	<b>748</b>	<b>897</b>
<b>PPOP</b>	<b>694</b>	<b>952</b>	<b>1,006</b>	<b>1,214</b>
Provisions & Contingencies	237	771	637	313
<b>PBT</b>	<b>456</b>	<b>180</b>	<b>369</b>	<b>901</b>
Provision for Tax	126	49	93	227
<b>PAT</b>	<b>330</b>	<b>131</b>	<b>276</b>	<b>674</b>

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

Y/E March	FY20	FY21	FY22E	FY23E
<b>SOURCES OF FUNDS</b>				
Share capital	144	156	156	156
Reserves and surplus	2,590	3,536	3,812	4,486
<b>Shareholders' funds</b>	<b>2,734</b>	<b>3,692</b>	<b>3,968</b>	<b>4,642</b>
Borrowings	<b>9,540</b>	<b>10,941</b>	<b>12,421</b>	<b>15,312</b>
Other Liabilities	316	426	501	651
<b>Total</b>	<b>12,590</b>	<b>15,059</b>	<b>16,890</b>	<b>20,605</b>
<b>APPLICATION OF FUNDS</b>				
Cash & Bank Balance	718	2,484	2,080	2,098
Investments	46	1	1	1
Goodwill	318	318	318	318
Advances	11,099	11,720	13,869	17,487
Fixed and Other assets	411	536	623	700
<b>Total Assets</b>	<b>12,590</b>	<b>15,059</b>	<b>16,890</b>	<b>20,605</b>

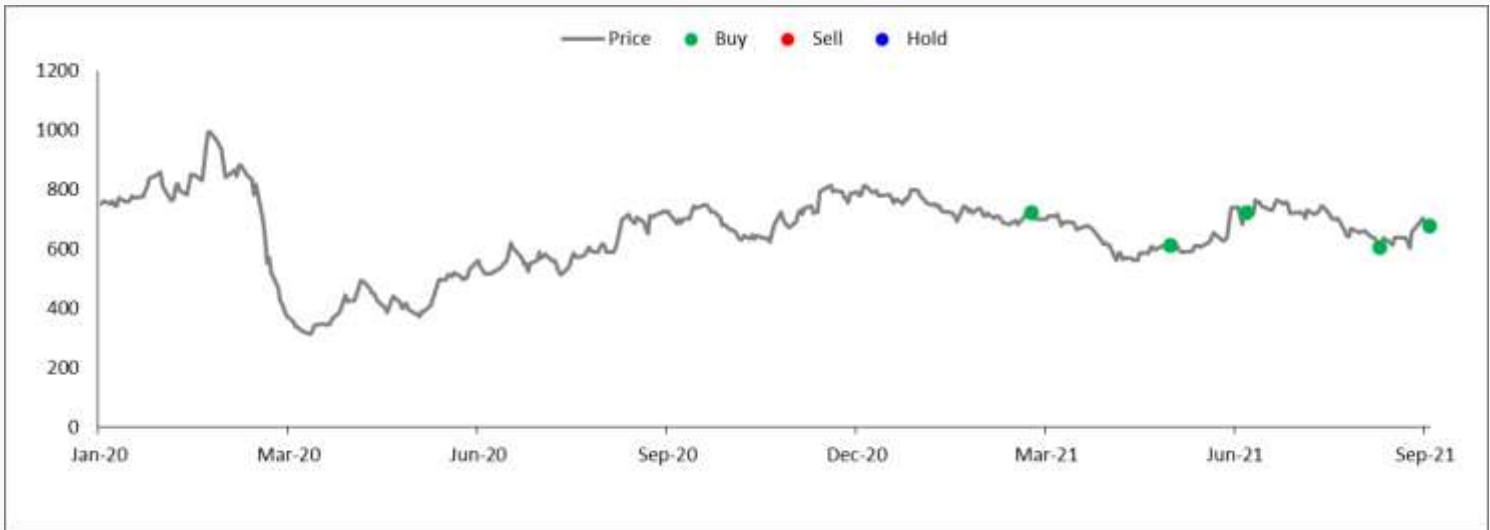
Source: Company, Axis Securities

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

Y/E March	FY20	FY21	FY22E	FY23E
<b>VALUATION RATIOS</b>				
EPS	22.9	8.4	17.7	43.3
Earnings Growth (%)	2%	-63%	110%	144%
BVPS	189.9	237.3	255.0	298.3
RoAA (%)	3.3%	1.0%	1.7%	3.6%
ROAE (%)	12.9%	4.1%	7.2%	15.7%
P/E (x)	29.6	80.4	38.3	15.7
P/BV (x)	3.6	3.0	2.7	2.3
Dividend Yield (%)	0.0	0.0	0.0	0.0
<b>PROFITABILITY</b>				
Yield on Total Assets (%)	17.1	17.6	17.7	18.1
Cost of Funds (%)	9.9	9.1	9.0	9.0
Core Spread (%)	9.1	8.5	8.7	9.0
NIM (%)	9.8	9.3	9.6	9.8
<b>OPERATING EFFICIENCY</b>				
Cost-Income Ratio (%)	37.9	38.0	42.7	42.5
<b>BALANCE SHEET STRUCTURE RATIOS</b>				
Loan Growth (%)	68	6	18	26
Equity/Assets (%)	23	25	23	23
Equity/Loans (%)	26	31	29	27
Total Capital Adequacy Ratio (CAR)	23.6	26.8	26.8	25.6
Tier I CAR	22.3	25.5	25.7	24.7
<b>ASSET QUALITY</b>				
Gross NPLs (Rs. Cr)	142	450	552	406
Gross NPLs (%)	1.6%	4.4%	4.6%	2.7%
Provision/Avg. AUM (%)	2.7%	6.8%	5.0%	2.0%
<b>ROAA TREE</b>				
Net Interest Income	10.6	9.8	10.1	10.4
Non-Interest Income	0.7	1.3	0.8	0.8
Operating Cost	4.3	4.2	4.7	4.8
Provisions	2.4	5.6	4.0	1.7
Tax	1.3	0.4	0.6	1.2
ROAA	3.4	1.0	1.7	3.6
Leverage (x)	3.8	4.3	4.3	4.4
ROAE	12.9	4.1	8.6	15.7

Source: Company, Axis Securities

## CreditAccess Grameen Price Chart and Recommendation History



Date	Reco	TP	Research
04-Mar-21	BUY	865	Initiating Coverage
07-May-21	BUY	750	Result Update
11-Jun-21	BUY	810	Company Update
12-Aug-21	BUY	745	Result Update
06-Sep-21	BUY	745	Company Update

Source: Axis Securities

**About the analyst****Analyst:** Dnyanada Vaidya**Contact Details:** dnyanada.vaidya@axissecurities.in**Sector:** BFSI**Analyst Bio:** Dnyanada Vaidya is MMS (Finance) with over 4 years of research experience in the Banking/NBFC sector.**Disclosures:**

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