

Disappointing quarter due to Covid, but one can expect things to gradually improve.



**Credit Access Grameen Ltd has reported a stable set of numbers as severe asset quality stress seen due to second wave of covid. Company managed disbursements of INR 12.59 Bn in July compared to entire Q1'22 disbursement of INR 10.65 Bn which is a positive**

- Net Interest Income came in at INR 3.52 Bn, (8.3)% YoY/(24)%QoQ vs our expectation of INR 4.0 Bn.
- Other Income came in at INR .15 Bn, 289.5% YoY/ (39.1)% QoQ
- PPOP came in at INR 2.16 Bn, (15.3)%YoY/(34.2)% QoQ vs our expectation of INR 3.2 Bn.
- Provisions came in at INR 1.87 Bn, 21.1 % YoY / (25.0)% QoQ
- Company reported a profit of INR .2 Bn, (72.8)% YoY / (64.0)% QoQ below our estimates mainly due to accelerated provisioning.
- EPS stood at INR 1.45 vs INR 5.0 / INR 3.62 in YoY / QoQ respectively.

### Financial and Operational Highlights

- Gross Loan Portfolio (GLP) at INR 126.64 bn (8.0% YoY/(6.7)% QoQ). Disbursements in Q1'22 saw significant slowdown on a QoQ basis and came in at INR 10.65 Bn vs INR 47.26 Bn. But disbursements of INR 12.59 Bn in July compared to entire Q1'22 disbursement of INR 10.65 Bn is a positive
- Asset Quality deteriorated with GNPA coming in at 7.56% (+313 bps QoQ). Write-off of INR .78 Bn taken in Q1 FY22.
- Extremely conservative provisioning taken. Total ECL provisions stands at INR 7.31 Bn (6.3% of loan portfolio).
- Credit Access recorded weak collection efficiency of 84% in June / 79% in May, Madura Micro Finance collection efficiency lags behind with 66% in June. Collection efficiency was extremely weak in Madura due to stringent lockdowns in Tamil Nadu and Kerala. Collection deferment was allowed during May-21 and Jun-21, due to inability to meet customers.

### Financial Summary

Y/E Mar(Rs Bn)	FY 19	FY 20	FY 21	FY 22E	FY 23E
Nil	8	10	14	15	18
Operating Profit	6	7	10	11	15
Net Profit	3	3	1	4	6
Net Worth	24	27	37	41	48
EPS(Rs)	22	23	9	26	45
growth(%)	12.1	4.5	(61.6)	188.0	73.0
P/E(X)	27.5	26.3	67.2	23.2	13.4
P/BV(x)	3.7	3.2	2.5	2.4	2.0
ROA(%)	5.2	3.3	1.0	2.7	4.3
ROE(%)	16.9	13.0	4.2	11.0	16.0

Source: Dalal & Broacha Research

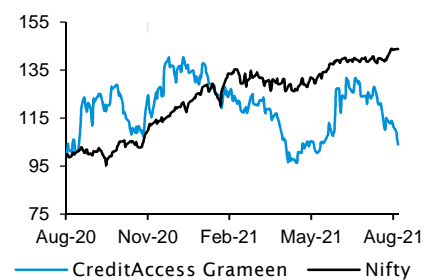
Rating	TP (Rs)	Up/Dn (%)
<b>HOLD</b>	<b>650</b>	<b>7</b>

### Market data

Current price	Rs	605
Market Cap (Rs.Bn)	(Rs Bn)	94.27
	(US\$ Mn)	
Market Cap (US\$ Mn)	Mn	1266
Face Value	Rs	10
52 Weeks High/Low	Rs	839/541
Average Daily Volume	('000)	119
BSE Code		532174
Bloomberg		CRE DAG:IN

Source: Bloomberg

### One Year Performance



Source: Bloomberg

% Shareholding	Jun-21	Mar-21
Promoters	73.97	73.99
Public	26.03	26.01
Others	0.00	0.00
Total	100	100

Source: BSE

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- We would have liked customers who made full payments to have touched 95/96% at least but as on July % GLP on account of borrowers with full-payment was 76.6%. Collection efficiency has improved to 97% for July for Credit access and 83% for Madura which gives us little comfort.
- Operational efficiency deteriorated as income and other income fell, with standalone cost to income ratio stood at 37.4% (+820 bps QoQ).
- Capital Adequacy remains strong with CRAR of 28.6%.
- Strong liquidity position cash/bank balance of INR 22.21Bn as on June'21.

Madura's collection efficiency is a concern point for third quarter in a row, we really would like to see a strong improvement in second half of FY22.

## Valuation and outlook

Credit Access Grameen Ltd has reported stable numbers this quarter amid extremely challenging times for the microfinance industry. GLP de-growth on a QoQ was on expected lines but disbursements have been strong in July. Asset quality again disappointed but can be looked through once again as lockdowns were stringent in southern states.

Low collection efficiencies for Madura is a negative and continues to lag behind Credit Access, collection efficiencies still have not reached levels which we would like with Tamil Nadu and Kerala proving to be a stress point.

At current price of INR 605 stock trades at P/BV of 2.4x for FY22 and 2.0x for FY23 and we have a HOLD rating on the stock with target price of INR 650.

We are continuing to maintain our Target price of INR 650 even with the asset quality issues and maintain our "HOLD" rating only because of strong disbursements and collection efficiencies in July. 101 new branches being opened in Mar'21 and July'21 combined primarily in newer states is a positive development for geographical diversification and disbursement growth.

Atleast in Q2'20, company has to deliver on asset quality and growth as most of the lockdowns are lifted across the country.

Upgrade will be done only when collection efficiencies hit 98/99% for both Credit Access and Madura.

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## Highlights of the Conference Call

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### Collection Efficiency

- Gradual pick-up in monthly collections in July (excl. arrears/ incl. arrears).
- CAGL: 97% in July-21, MMFL: 83% in July-21.

### Portfolio At Risk

- PAR 0 at 21.9% as on July'21 reduced from 30.6% in June'21, PAR 60 at 8.1% as on July'21 up from 7.8% in June'21, PAR 90 at 5.7% as on July'21 up from 3.8% in June'21.

### Full payment and Partial Payment Numbers

- Continued efforts to encourage customers to maintain/ improve the repayment trend
- Decision to announce deferment of collections in 2<sup>nd</sup> week of May-21 due to inability to meet customers primarily in Karnataka, Kerala, Maharashtra, and Tamil Nadu.
- Focus on roll-back of partially paying customers and activation of non-paying customers
- Write-off of INR 78 Cr taken in Q1 FY22
- In Credit Access 76.6%/16.9% of customers have made full/partial payments as on July'21.

### Provisioning

- CAGL adopts conservative approach leading to early recognition of risk backed by accelerated provisioning coverage.
- Most of the additional provisioning due to second wave of covid and lockdowns.
- Some provisioning can be written back in the coming quarters.

### Disbursements and New Branch Openings

- Disbursements showed strong traction in July and was higher than entire Q1 disbursements.
- 101 new branches being opened in Mar'21 and July'21 combined primarily in newer states.

## Financials

P&L Rs Bn	Q3FY 20	Q4FY 20	Q1FY 21	Q2FY 21	Q3FY 21	Q4FY 21	Q1FY 22
Interest Earned	4.4	4.5	4.9	4.6	4.1	5	5
Interest Expended	1.4	1.7	1.9	1.9	1.8	1	2
NII	3	2.8	3	2.7	2.5	4	3
Other Income	1.5	0	0.25	0.1	0.1	0.1	0.1
Net Income	4.5	2.9	3.2	2.8	2.6	4.2	3.1
Opex	1	1	1	1	1	1	1
PPOP	2.0	1.9	2.1	1.7	1.4	3.0	2.0
Provisions	1	1	1	1	2	2	1.5
PBT	2	0	1	1	(0.9)	1	0.4
Tax	0	0	0	0	(0.2)	0.2	0.1
PAT	1.1	0.2	0.6	0.7	(0.7)	0.7	0.3
Loan Portfolio Rs Bn							
Gross Loan Portfolio	89	99	97	92	102	113	127
IGL	75	84	83	81	98	105	123
Retail Loans	5	5	5	4	4	8	4
Ratios(%)							
GNPA	0.8	1.5	1.6	1.6	1.0	4.4	8.1
NNPA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CAR	32.4	23.6	23.7	26.4	31.4	31.8	33.8
Cost/Income	34.8	36.6	31.0	39.2	43.5	34.8	37.4
Portfolio Yield	19.7	19.6	20.5	19.7	16.3	18.6	18.4
Cost of Borrowing	10.0	9.6	9.4	9.6	9.4	8.9	9.3
Spread	9.7	10.0	11.0	11.1	6.9	9.7	10.5
NIM	12.4	12.1	12.6	11.1	8.7	11.3	10.5
ROA	4.6	3.6	2.2	2.7	(2.5)	1.2	0.9
ROE	16.5	12.9	9.4	11.3	(9.0)	4.6	3.2

Source: Dalal &amp; Broacha Research, Company

## Exhibit 1:

P&L (Rs Bn)	FY 20	FY 21	FY 22	FY 23
Interest Earned	16.3	22.9	25.4	31.0
Interest Expended	5.8	9.2	10.0	11.0
NII	10.5	13.6	15.4	18.0
Other Income	0.7	1.8	1.2	1.4
Net Income	11.2	15.4	16.6	19.4
Opex	4.2	5.4	5.6	4.4
PPOP	7.0	10.0	11.0	15.0
Provisions	2.3	8.2	5.6	6.6
PBT	4.6	1.8	5.4	8.4
Tax	1.3	0.4	1.3	2.4
PAT	3.1	1.4	4.0	6.0

Source: Dalal &amp; Broacha Research, Company

## Exhibit 2:

BS (Rs Bn)	FY 20	FY 21	FY 22	FY 23
Capital	1.4	1.5	1.5	1.5
Reserves	25.9	35.0	39.0	45.0
Borrowings	95.4	110.0	123.0	137.0
Other Liabilities	3.2	4.0	4.0	2.0
Total	125.9	150.5	167.5	185.4
Cash & Bank	7.2	25.0	20.0	17.0
Advances	110.9	117.2	140.0	160.0
Intangible Assets	4.9	4.4	4.4	4.5
Fixed Assets	0.3	0.3	0.4	0.4
Other Assets	2.5	2.2	2.4	3.5
Total	125.9	150.5	167.5	185.4

Source: Dalal &amp; Broacha Research, Company

## Exhibit 3:

Ratios (%)	FY 20	FY 21	FY 22	FY 23
Asset Quality				
GNPA	1.5	4.4	5.0	1.6
NNPA	0.0	0.0	0.0	0.0
ROA	3.3	1.0	2.7	4.3
ROE	13.0	4.2	11.0	16.0
Returns				
EPS	23.0	9.0	26.0	45.0
P/E	26.3	67.2	23.2	13.4
P/BVPS	3.2	2.5	2.4	2.0

Source: Dalal &amp; Broacha Research, Company

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