

Disbursement Strong, Not Out of The Woods On Asset Quality Front



Credit Access Grameen Ltd has reported a stable set of numbers as asset quality stress still not behind the company. Company managed disbursements of INR 38.90 Bn in Q2 which is a strong positive. Profitability and income in line with estimates.

- **Net Interest Income came in at INR 3.69 Bn**, 11.5% YoY/4.6%QoQ vs our expectation of INR 3.7 Bn.
- **Other Income came in at INR .21 Bn**, 120.3% YoY/ 37.5% QoQ
- **PPOP came in at INR 2.18 Bn**, 11.1%YoY/1.1% QoQ vs our expectation of INR 2.2 Bn.
- **Provisions came in at INR 1.38 Bn**, 55.2 % YoY / (25.5)% QoQ
- **Company reported a profit of INR .59 Bn**, (25.0)% YoY / 194.5% QoQ in line with our estimates of INR .60Bn
- **EPS stood at INR 4.08 vs INR 5.5 / INR 1.45 in YoY / QoQ respectively.**

Financial and Operational Highlights

- Gross Loan Portfolio (GLP) at INR 133.33 Bn (19.0% YoY/5.2% QoQ). Disbursements in Q2'22 saw significant growth on a QoQ basis and came in at INR 38.9 Bn vs INR 10.65 Bn. GLP showing strong growth on a QoQ basis after de-growth in Q1 a positive but GLP is still below Q4'21 GLP level of INR 135.87 Bn so company has to press hard on growth pedal in H2'22.
- Asset Quality continues to show weakness with GNPA coming in at 7.67% (+11 bps QoQ). Write-off of INR 1.29 Bn taken in Q2 FY22.
- Extremely conservative provisioning taken. Total ECL provisions stands at INR 7.42 Bn (5.9% of loan portfolio).
- Credit Access recorded improving collection efficiency of 93% in September / 92% in August, Madura Micro Finance collection efficiency lags behind with 87% in September. Collection efficiency is below 95% in 3 states Maharashtra, Madhya Pradesh and Chhattisgarh. Maharashtra and Madhya Pradesh form 30.8% of overall GLP.
- Operational efficiency deteriorated as costs increased with improving business activity, with standalone cost to income ratio stood at 42.5% (+510 bps QoQ).
- Capital Adequacy remains strong with CRAR of 26.1%.
- Strong liquidity position cash/bank balance of INR 16.22Bn as on September'21.

Financial Summary

Y/E Mar(Rs bn)	FY 19	FY 20	FY 21	FY 22E	FY 23E
NII	8	10	14	15	18
Net Profit	3	3	1	3	6
Net Worth	24	27	37	41	48
EPS(Rs)	22	23	9	18	32
growth(%)	45.0	14.8	(33.0)	100.0	77.0
P/E(X)	27.5	26.3	67.2	33.0	19.0
P/BV(x)	3.7	3.2	2.5	2.4	2.0
ROA(%)	5.2	3.3	1.0	2.0	4.3
ROE(%)	16.9	13.0	4.2	7.5	16.0

Source: Dalal & Broacha Research

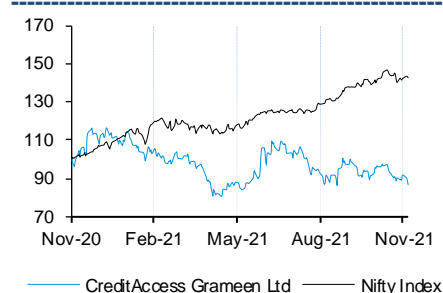
Rating	TP (Rs)	Up/Dn (%)
HOLD	650	8

Market data

Current price	Rs	602
Market Cap (Rs.Bn)	(Rs Bn)	94
Market Cap (US\$ Mn)	(US\$ Mn)	1,268
Face Value	Rs	10
52 Weeks High/Low	Rs	840 / 541
Average Daily Volume	('000)	111
BSE Code		541770
Bloomberg		CRE DAG.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Sep-21	Jun-21
Promoters	46.44	44.66
Public	53.56	53.34
Total	100	100

Source: BSE

Valuation and outlook

Credit Access Grameen Ltd has reported stable numbers this quarter amid extremely challenging times for the microfinance industry. GLP growth on a QoQ basis after de-growth seen in Q1 a strong positive.

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 Maharashtra proving to be a stress point. The positive is integration with Credit Access is complete.

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 because of strong disbursements. 121 new branches opened in Q2'22 primarily in newer states like Bihar, UP is a positive development for geographical diversification and disbursement growth.

We are not increasing our price target as there can be further write-offs in states like Maharashtra and Madhya Pradesh and a full clean up could take another two quarters at least.

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

Highlights of the Conference Call

Collection Efficiency

- Gradual pick-up in monthly collections in October (excl. arrears/ incl. arrears).
- CAGL: 98% in October-21, MMFL: 87% in October-21.

Portfolio At Risk

- PAR 0 at 11.5% as on September'21 reduced from 21.9% in July'21, PAR 60 at 6.6% as on September'21 reduced from 8.1% in July'21, PAR 90 at 5.4% as on September'21 remains stagnant from 5.7% in July'21.

Full payment and Partial Payment Numbers

- Continued efforts to encourage customers to maintain/ improve the repayment trend.
- Write-off of INR 129 Cr taken in Q2 FY22
- Issues persist in Maharashtra, can see write-offs from the non-paying portfolio, but company has fully provided for this portion.

Provisioning

- CAGL adopts conservative approach leading to early recognition of risk backed by accelerated provisioning coverage.
- Madura provisioning and recognition of NPA brought to 60+dpd in line with Credit Access Grameen.

Disbursements and New Branch Openings

- Disbursements showed strong traction and has reached pre-covid levels
- 121 new branches opened in Q2, primarily in newer states like UP and Bihar.

Growth, Credit Cost and ROA guidance

- Management expects to achieve loan portfolio growth of 17%-19% with a credit cost of 4.7%-4.9% resulting in an ROA of 1.8%-2.0% for FY22

Financials

Table 1

P&L (Rs Bn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Interest Earned	4.4	4.5	4.9	4.6	4.1	5.0	5.0	4.9
Interest Expended	1.4	1.7	1.9	1.9	1.8	1	2	1.8
NII	3	2.8	3	2.7	2.5	4	3	3.09
Other Income	1.5	0	0.25	0.1	0.1	0.1	0.1	0.1
Net Income	4.5	2.9	3.2	2.8	2.6	4.2	3.1	3.3
Opex	1	1	1	1	1	1	1	1.5
PPOP	2	1.9	2.1	1.7	1.4	3	2	1.8
Provisions	1	1	1	1	2	2	1.5	0.9
PBT	2	0	1	1	-0.9	1	0.4	0.9
Tax	0	0	0	0	-0.2	0.2	0.1	0.2
PAT	1.1	0.2	0.6	0.7	-0.7	0.7	0.3	0.7
Loan Portfolio (Rs Bn)								
Gross Loan Portfolio	89	99	97	92	102	113	127	133
IGL	84	94	92	88	98	105	123	129
Retail Loans	5	5	5	4	4	8	4	4
Ratios (%)								
GNPA	0.8	1.5	1.6	1.6	1	4.4	8.1	7.1
NNPA	0	0	0	0	0	0	0	0
CAR	32.4	23.5	23.7	26.4	31.4	31.8	33.8	30.9
Cost/Income	34.8	36.6	31	39.2	43.5	34.8	37.4	42.5
Portfolio Yield	19.7	19.6	20.5	19.7	16.3	18.6	18.4	18.5
Cost of Borrowing	10	9.6	9.4	9.6	9.4	8.9	9.3	9.3
Spread	9.7	10	11	11.1	6.9	9.7	9.1	9.2
NIM	12.4	12.1	12.6	11.1	8.7	11.3	10.5	11.3
ROA	4.6	3.6	2.2	2.7	-2.5	1.2	0.9	2.2
ROE	16.5	12.9	9.4	11.3	-9	4.6	3.2	7.8

Source: Dalal & Broacha Research

Exhibit 1:

P&L (Rs Bn)	FY20	FY21	FY22	FY23
Interest Earned	16.3	22.9	25.4	31
Interest Expended	5.8	9.2	10	11
NII	10.5	13.6	15.4	18
Other Income	0.7	1.8	1.2	1.4
Total Income	11.2	15.4	16.6	19.4
Opex	4.2	5.4	5.6	4.4
PPOP	7	10	11	15
Provisions	2.3	8.2	7.6	6.6
PBT	4.6	1.8	3.4	8.4
Tax	1.3	0.4	0.4	2.4
PAT	3.1	1.4	3	6.6

Source: Dalal & Broacha Research, Company

Exhibit 2:

BS (Rs Bn)	FY20	FY21	FY22	FY23
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 & Broacha Research, Company

Exhibit 3:

Ratios (%)	FY 20	FY 21	FY 22	FY 23
Asset quality				
GNPA	1.5	4.4	6	1.6
NNPA	0	0	0	0
ROA	3.3	1	2	4.3
ROE	13	4.2	7.5	16
Per share (Rs)				
EPS	23	9	18	32
P/E	26.3	67.2	33	19
P/BVPS	3.2	2.5	2.4	2.0

Source: Dalal & Broacha Research, Company

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