

Growth Momentum Back, Asset Quality Issues Crop Up



Credit Access Grameen has reported stable performance in Q3'21. Gross loan Portfolio and disbursements have shown strong growth while collections in Maharashtra remains a stress point.

Gross Loan Portfolio (GLP) at INR 123.2 Bn (+39% YoY/+10% QoQ). Disbursements showed strong growth and grew by (54%YoY/179% QoQ) to INR 45.9 Bn which is a big positive.

- Net Interest Income came in at INR 3.17 Bn, 5.0% YoY/(7%)QoQ vs our expectation of INR 3.4 Bn.
- Other Income came in at INR .01 Bn, (78%) YoY/ +54.0% QoQ
- PPOP came in at INR 1.7 Bn, (15%) YoY/(14.0%) QoQ vs our expectation of INR 2.1 Bn.
- Provisions came in at INR 2.7 Bn, +404.0 % YoY / +206.0% QoQ
- Company reported a loss of INR .7 Bn, -173% YoY / -199% QoQ below our estimates of profit of INR .8 Bn mainly due to accelerated provisioning.
- EPS stood at INR (5.1) vs INR 7.5 / INR 5.5 in YoY / QoQ respectively.

Financial and Operational Highlights

- Gross Loan Portfolio (GLP) at INR 123.2 Bn (+39% YoY/+10% QoQ). Disbursements showed strong growth and grew by (54%YoY/179% QoQ) to INR 45.9 Bn. New Disbursals (Jun-Dec) account for ~49% of GLP.
- Asset Quality deteriorated with GNPA which came at 0.90% (+5 bps YoY/ -87bps QoQ) with proforma GNPA coming in at 6.14% if NPA was recognized post 31st August. Write-off of INR 1.1 Bn (incl. accelerated write-off of INR .85Bn) in Q3 FY21.
- Extremely conservative provisioning of INR 2.7Bn taken mainly on account of stress in parts of Maharashtra (forms 24.8% of their total GLP), some portion may be written back as stress eases. Total ECL provisions increases to INR 6.9 Bn (5.72% of loan portfolio)

Financial Summary

Y/E Mar(Rs Bn)	FY19	FY20	FY21E	FY22E	FY23E
NII	8	10	15	19	22
Operating Profit	6	7	10	12	15
Net Profit	3	3	4	6	8
Net Worth	24	27	31	38	42
EPS(Rs)	22	23	28	49	64
growth(%)	36.0	1.0	22.0	77.0	31.0
P/E(X)	31.5	30.1	24.8	14.1	10.8
P/BV(x)	4.2	3.7	3.1	2.6	1.9
ROA(%)	5.2	3.6	3.2	3.7	3.9
ROE(%)	16.9	13.0	13.9	18.1	19.0

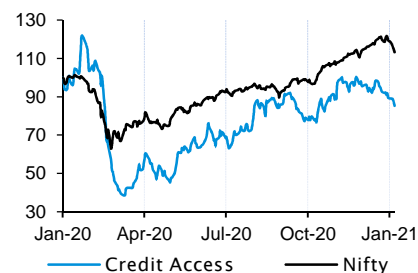
Source: Dalal & Broacha Research

Rating	TP (Rs)	Up/Dn (%)
HOLD	650	(6)

Market data

Current price	Rs	694
Market Cap (Rs.Bn)	(Rs Bn)	108
Market Cap (US\$ Mn)	(US\$ Mn)	1480
Face Value	Rs	10
52 Weeks High/Low	Rs	1000/306
Average Daily Volume	('000)	70
BSE Code		532174
Bloomberg		CRE DAG:IN
Source: Bloomberg		

One Year Performance



Source: Bloomberg

% Shareholding	Dec-20	Oct-20
Promoters	74.03	74.06
Public	25.97	25.94
Others	0.00	0.00
Total	100	100

Source: BSE

- Credit Access recorded collection efficiency of 96% in December / 92% in November, Madura Micro Finance collection efficiency lags behind with 87% in December / 84% in November. In Credit Access 88%/6.9% of customers have made full/partial payments as of December'20 and in Madura Microfinance 85.7%/12.1% of customers have made full/partial payments as of December'20.
- Standalone NIM fell to 8.7% vs 11.1% in Q2'21. Madura's NIM fell to 10.2% vs 11.2% in Q2'21.
- Operational efficiency deteriorated as costs increased with pickup in operations, with standalone cost to income ratio stood at 43.5 % (+870bps YoY/+430 bps QoQ).
- Capital Adequacy improved at CRAR 31.4% vs 26.4% in Q2'21.
- Strong liquidity position cash/bank balance of INR 15.8Bn as on December'20.

We would have liked customers who made full payments to have touched 90% at least but management is confident things will improve.

Valuation and outlook

Credit Access Grameen Ltd has reported stable numbers this quarter. GLP growth of 39% on a YoY basis and 10% QoQ in these challenging times with strong growth in disbursements is very credible. Situation in Maharashtra continues to remain a concern and company although have made conservative provisioning, we feel stress could persist leading into Q4 also.

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 Maharashtra proving to be a stress point.

At current price of INR 693 stock trades at P/BV of 3.1x for Fy21 and 2.6x for Fy22 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 and maintain our "HOLD" rating. Upgrade will be done only when collection efficiencies hit 95% and above.

Highlights of the Conference Call

Collection Efficiency

- Gradual pick-up in monthly collections (excl. arrears/ incl. arrears).
- CAGL: 91%/ 96% in Dec-20, MMFL: 86%/ 87% in Dec-20.

Portfolio At Risk

- PAR excluding Maharashtra is trending as per management anticipation – reaching near normalcy.
- PAR 0 at 11.8% as on December'20, excluding Maharashtra at 9.0%.

Collection Issue in Maharashtra

- In Maharashtra, management expected recovery to be slower by 2-3 months. Current status is in line with management expectation.
- PAR in Maharashtra is expected to gradually reduce over coming quarter.
- Coastal Maharashtra is doing well, even places like Vidarbha, problem in southern Maharashtra that was ravaged by floods, followed by corona virus and floods again.

Full payment and Partial Payment Numbers

- Continued efforts to encourage customers to maintain/ improve the repayment trend
- Additional financing support to customers displaying improving repayment behavior
- Focus on roll-back of partially paying customers and activation of non-paying customers
- Write-off of INR 111.9 Cr (incl. accelerated write-off of INR 84.7 Cr) in Q3 FY21
- In Credit Access 88%/6.9% of customers have made full/partial payments as of December'20 and in Madura Microfinance 85.7%/12.1% of customers have made full/partial payments as of December'20.

Provisioning

- CAGL adopts conservative approach leading to early recognition of risk backed by accelerated provisioning coverage.
- Some of the provisioning can be written back in Q4 as customers are making partial payments.
- Most of the additional provisioning due to stress in Maharashtra.
- Credit cost may go up by 30-40 bps post covid compared to pre-covid, credit cost levels similar to demonetization levels.

Disbursements and Growth Going Forward

- Disbursements back to pre-covid levels.
- Growth is slow in Maharashtra, next 4- 5years can achieve 20-25% CAGR growth, confident of maintaining ROA>2%

Capital Position Going Forward

- Company's has enough capital for this and next financial year, will be looking to raise capital by the end of FY21-22

Financials

P&L Rs Bn	Q1FY 20	Q2FY 20	Q3FY 20	Q4FY 20	Q1FY 21	Q2FY 21	Q3FY 21
Interest Earned	3.7	3.9	4.4	4.5	4.9	4.6	4.1
Interest Expended	1.2	1.4	1.4	1.7	1.9	1.9	1.8
NII	2.5	2.5	3	2.8	3	2.7	2.5
Other Income	1.3	1.4	1.5	0	0.25	0.1	0.1
Net Income	3.8	3.9	4.5	2.9	3.2	2.8	2.6
Opex	1	1	1	1	1	1	1
PPOP	1.6	1.6	2.0	1.9	2.1	1.7	1.4
Provisions	0	0	1	1	1	1	2
PBT	2	1	2	0	1	1	(0.9)
Tax	1	0	0	0	0	0	(0.2)
PAT	1.0	1.0	1.1	0.2	0.6	0.7	(0.7)
Loan Portfolio Rs Bn							
Gross Loan Portfolio	76	79	89	99	97	92	102
IGL	65	67	75	84	83	81	98
Retail Loans	4	4	5	5	5	4	4
Ratios(%)							
GNPA	0.5	0.5	0.8	1.5	1.6	1.6	1.0
NNPA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CAR	34.6	34.2	32.4	23.6	23.7	26.4	31.4
Cost/Income	35.4	39.8	34.8	36.6	31.0	39.2	43.5
Portfolio Yield	19.7	19.5	19.7	19.6	20.5	19.7	16.3
Cost of Borrowing	10.2	10.3	10.0	9.6	9.4	9.6	9.4
Spread	9.5	9.2	9.7	10.0	11.0	11.1	6.9
NIM	12.6	12.1	12.4	12.1	12.6	11.1	8.7
ROA	4.8	4.8	4.6	3.6	2.2	2.7	(2.5)
ROE	15.9	16.1	16.5	12.9	9.4	11.3	(9.0)

Source: Dalal & Broacha Research, Company

Exhibit 1:

P&L (Rs Bn)	FY 20	FY 21	FY 22	FY 23
Interest Earned	16.3	25.3	31.2	40.3
Interest Expended	5.8	9.8	11.8	17.8
NII	10.5	15.5	19.4	22.5
Other Income	0.7	1.3	1.7	3.3
Net Income	11.2	16.9	21.1	25.8
Opex	4.2	6.8	8.9	10.7
PPOP	6.9	10	12.2	15.1
Provisions	2.3	4.6	3.8	3.9
PBT	4.6	5.4	8.4	11.3
Tax	1.3	1.4	2.1	3.1
PAT	3.4	4	6.3	8.2

Source: Dalal & 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	30.3	36.6	41.3
Minority Interest	1.1			
Borrowings	95.4	116.6	150.4	161.2
Other Liabilities	2.0	2.2	2.3	2.3
Total	125.9	150.7	190.9	206.3
Cash & Bank	7.2	7.4	3.9	5.3
Advances	110.9	136.4	179.8	190.2
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	150.7	190.9	206.3

Source: Dalal & Broacha Research, Company

Exhibit 3:

Ratios (%)	FY 20	FY 21	FY 22	FY 23
Asset Quality				
GNPA	1.5	2.7	1.4	1.6
NNPA	0.0	0.0	0.0	0.0
ROA	3.6	3.2	3.7	3.9
ROE	13.0	13.9	18.1	19.0
Returns				
EPS	23.0	28.0	49.0	64.0
P/E	30.1	24.8	14.1	10.8
P/BVPS	3.7	3.1	2.6	1.9

Source: Dalal & Broacha Research, Company

Disclaimer

Dalal & Broacha Stock Broking Pvt Ltd, hereinafter referred to as D&B (CINU67120MH1997PTC111186) was established in 1997 and is an integrated financial services player offering an extensive range of financial solutions and services to a wide spectrum of customers with varied needs ranging from equities to mutual funds to depository services. D&B is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE). D&B along with its affiliates offers the most comprehensive avenues for investments and is engaged in the securities businesses including stock broking (Institutional and retail), depository participant, portfolio management and services rendered in connection with distribution of primary market issues and financial products like mutual funds, fixed deposits. Details of associates are available on our website i.e. www.dalal-broacha.com

D&B is registered as Research Analyst with SEBI bearing registration Number INH000001246 as per SEBI (Research Analysts) Regulations, 2014.

D&B hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in any time in the past. It has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time. SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on D&B for certain operational deviations in routine course of business.

D&B offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by D&B (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

D&B or its associates may have financial interest in the subject company.

D&B or its associates do not have any material conflict of interest in the subject company.

The Research Analyst or Research Entity (D&B) has not been engaged in market making activity for the subject company.

D&B or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Disclosures in respect of Research Analyst:

Whether Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report:	No
Whether the Research Analyst or his/her relative's financial interest in the subject company.	No
Whether the research Analyst has served as officer, director or employee of the subject company	No
Whether the Research Analyst has received any compensation from the subject company in the past twelve months	No
Whether the Research Analyst has managed or co-managed public offering of securities for the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation or other benefits from the subject company or third party in connection with the research report	No

D&B and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject D&B or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom. All material presented in this report, unless specifically indicated otherwise, is under copyright to D&B. None of the material, nor its content, nor any

copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of D&B. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of D&B or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Name	Designation	Email	Phone	Sector
Mr. Kunal Bhatia	HOR	kunal.bhatia@dalal-broacha.com	022 67141442	Auto Auto Ancillary FMCG
Mrs.Charulata Gaidhani	Sr. Analyst	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma Healthcare
Mr. Mayank Babla	Sr. Analyst	mayank.babla@dalal-broacha.com	022 67141412	IT Telecom Media
Mr. Avinash Tanawade	Sr. Analyst	avinash.tanawade@dalal-broacha.com	022 67141449	BFSI
Mr. Akshay Ashok	Analyst	akshay.ashok@dalal-broacha.com	022 67141486	BFSI
Mr. Suraj Nandu	Analyst	suraj.nandu@dalal-broacha.com	022 67141438	FMCG Retail
Ms. Timshar Dhamodiwala	Associate	timshar.dhamodiwala@dalal-broacha.com	022 67141441	IT Telecom Media

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021.

Tel: 91-22- 2282 2992, 2287 6173, Fax: 91-22-2287 0092

E-mail: equity.research@dalal-broacha.com