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THINKING FUTURE

Mispriced Opportunity Note

CreditAccess Grameen Limited

Independent Equity Research

23rd September 2022

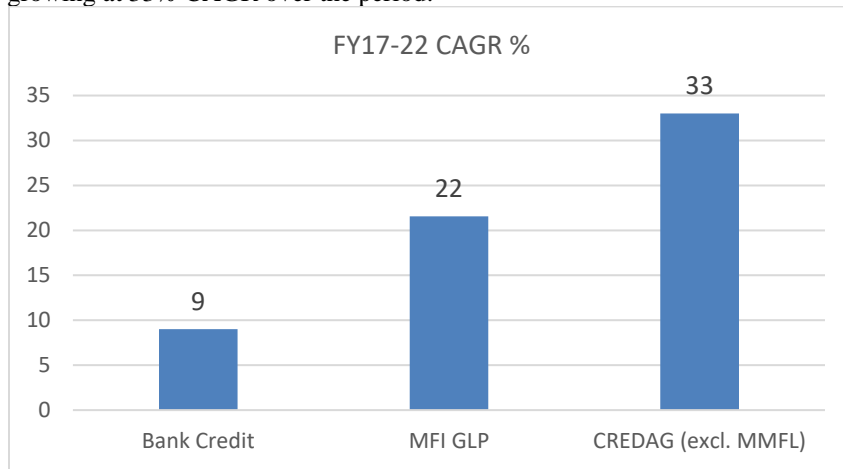
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CREDITACCESS GRAMEEN LTD. (CREDAG)

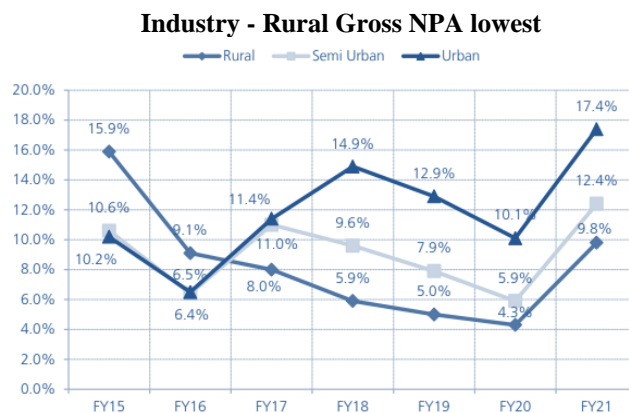
COMPANY AND INDUSTRY OVERVIEW

- **Strong MFI Industry Growth:** MFI industry (FY17-22 CAGR of 22%) has grown faster than overall bank credit growth (FY17-22 CAGR of 9%). The total MFI credit share in the overall credit industry is just 2.5%. CREDAG has outpaced the overall MFI industry growth as well, growing at 33% CAGR over the period.

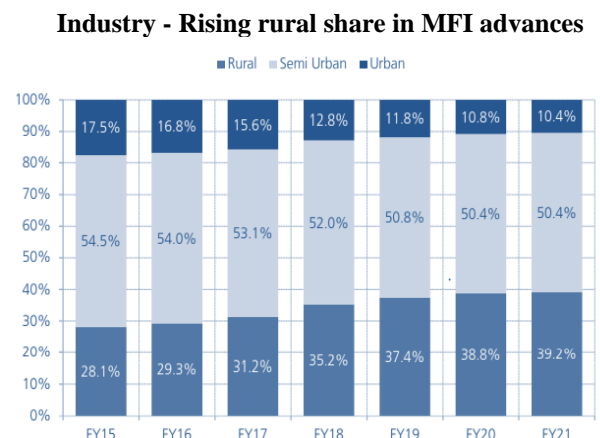


Source: MFIN, RBI, Equentis Research

- **New MFI regulations support the company's Vision:** New MFI regulations include i) Removal of 10% margin cap for NBFC-MFIs ii) Increase of household income to Rs. 3 lakh v/s Rs. 1.25lakh / Rs. 2lakh for rural / urban iii) total indebtedness revised from Rs. 1.25 lakh to 50% FOIR iv) minimum qualifying assets revised from 85% to 75% v) penalty on delayed payments allowed. As per the management's Q4FY22 presentation, the new regulations provide a head start for market share expansion and retention of higher vintage customers. It supports the Company's vision to serve the entire household's financing needs and ability to diversify and strengthen the balance sheet.
- **Rural based player with weekly collection focus:** Overall rural share has risen by 11% in the past 6 years to 39%, implying rural MFI growth has been faster than overall MFI growth. CREDAG is a predominant player in the rural MFI space with 85% of its total AUM catering to rural segment. Also, it follows a weekly collection focus which has historically seen a lower asset quality impact. (See Charts Below)



Source: ISec, Equentis Research



Source: ISec, Equentis Research

Industry - Weekly collections has lowest Gross NPA



Source: ISec, Equentis Research

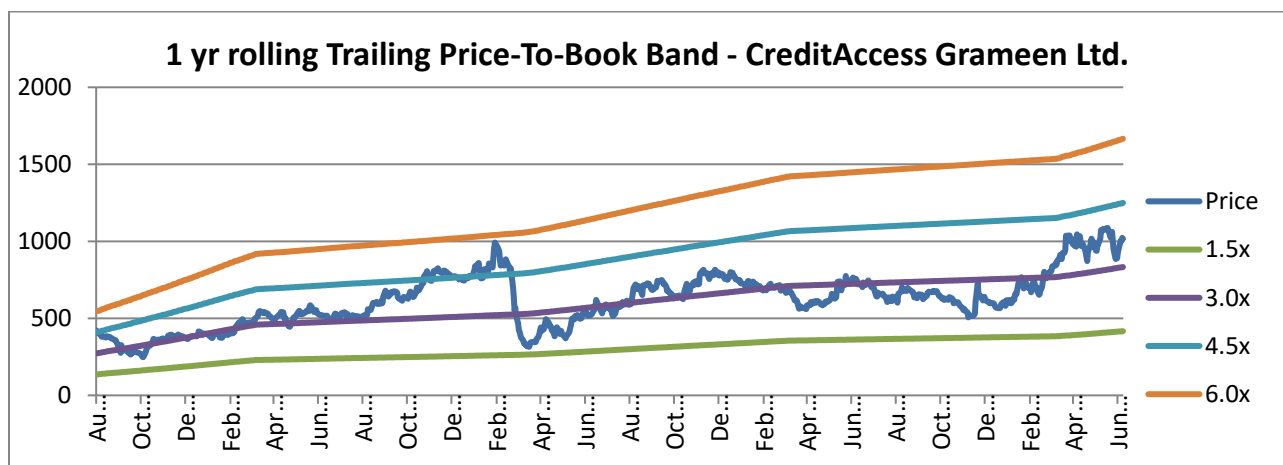
Key Takeaways

- ✓ CREDAG has delivered growth and asset quality improvement led by continuous improvement in monthly collection efficiency over the past 12 months, as seen in its Q1FY23 presentation and prior period presentations.
- ✓ Gross advances growth has been consistent barring FY21 which was a tough period owing to COVID, but a strong rebound in growth in FY22. The growth momentum was led by disbursements, as seen in its Q1FY23 presentation and prior period presentations.
- ✓ Improving asset quality, low Net NPA and declining PAR portfolio are positive for the company, as seen in its Q1FY23 presentation and prior period presentations.

Key Monitorables

- ✓ **Concentration risk:** Concentration of 80% lending in 3 states
- ✓ **MFI segment concentration:** 95% exposure to MFI (unsecured)
- ✓ **Dependent on rural economy:** 85% portfolio is in rural
- **Q1FY23 Results:** Consolidated AUM stood at Rs. 156bn and grew 23.3% YoY. NII grew by 35% YoY to Rs. 4.8bn led by AUM growth. Operating profit was at 34% YoY tracking NII growth. Provisions fell 46% YoY to Rs. 1bn thus leading to PAT growth of 588% YoY to Rs. 1.4bn.
- **Price and Earnings performance** – CREDAG's 3-year NII has grown at a CAGR of 27% while Operating Profit has grown at 24% CAGR over the same period.

Valuation



Source: Ace Equity

Consolidated Financial summary – CREDAG

Particulars (Rs. mn.)	FY19	FY20	FY21	FY22	CAGR
					FY19-22
Net Interest Income (NII)	8,650	11,250	15,323	17,587	27%
YoY	68%	30%	36%	15%	
Other Income	16	12	51	73	
Total Income	8,666	11,261	15,374	17,660	27%
YoY	34%	30%	37%	15%	
Pre-Provisioning Operating Profits (PPOP)	5,725	6,993	9,548	10,805	24%
Less: Provisions & Contingencies	749	2,373	7,714	5,968	100%
Credit cost	1.30%	2.70%	6.80%	4.50%	4.60%
Reported PAT	3,217	3,359	1,344	3,600	4%
YoY	51%	4%	-60%	168%	
Balance Sheet (Rs. Mn.)	FY19	FY20	FY21	FY22	CAGR
					FY19-22
Equity capital	1,436	1,440	1,556	1,559	
Reserves	22,303	25,902	35,360	38,218	
Networth	23,739	27,342	36,916	39,777	19%
Borrowings	48,666	86,441	91,637	1,14,249	33%
Other Liabilities	3,889	315	379	499	
TOTAL LIABILITIES	76,293	1,14,098	1,28,931	1,54,524	27%
Loans	66,028	1,10,989	1,17,205	1,47,653	31%
Other assets	10,265	3,109	11,726	6,871	
TOTAL ASSETS	82,449	1,14,098	1,28,931	1,54,524	23%
Key Financial Ratios	FY19	FY20	FY21	FY22	Avg. FY20-22
NIM on AUM	14.80%	12.70%	13.40%	13.30%	13.10%
Cost to Income Ratio	33.90%	37.90%	37.90%	38.80%	38.20%
RoA	4.80%	3.40%	1.10%	2.50%	2.40%
RoE	16.90%	13.20%	4.20%	9.40%	8.90%
Leverage	3.5	3.8	3.8	3.7	3.8
EPS (Rs)	21	22	9	23	4%
BVPS (Rs)	153	176	237	256	19%

Source: Company Reports

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