

## Equity Research Desk



## ALPHA

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## CreditAccess Grameen Ltd. – Leader in MFI

Market Data	
CMP	Rs. 981
Date	04-Nov-22
Target Price	Rs. 1145
Upside Potential	17.00%
52 Week High/Low	1154/495
Market Cap	Small Cap
NSE Code	CREDITACC
Sector	NBFC – MFI
Rating	Buy

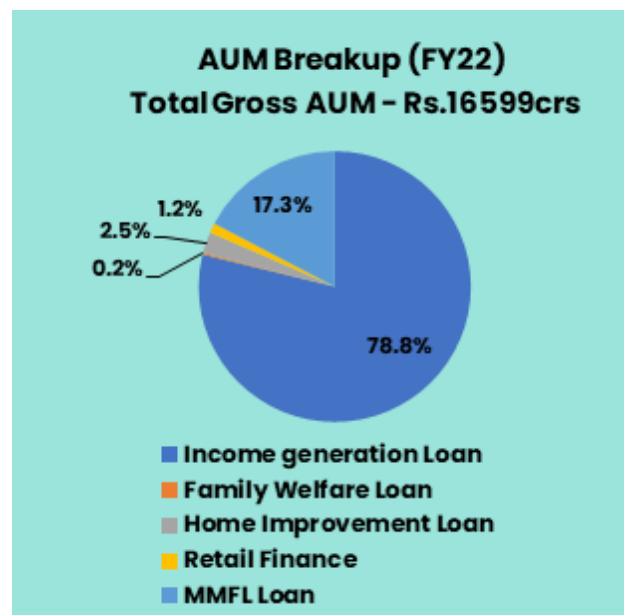
Established in 1991 as Sanni Collection Private Limited in West Bengal, CA Grameen (CreditAccess Grameen Ltd) commenced its microfinance operations in 1998 as a division under T. Muniswamappa Trust (TMT), a registered public charitable trust/NGO. In 2007, it transformed into a Microfinance Institution (MFI) under the brand name Grameen Koota and subsequently in the year 2016, the company started its retail finance portfolio. In 2018, its name was changed to CreditAccess Grameen Ltd and the company got listed in the same year. Subsequently in 2020, it acquired 76% stake in a Tamil Nadu based MFI – MMFL (Madura Micro Finance Limited). The company's operations are spread across 14 states and 1 Union Territory with a borrower base of ~4 million. The promoter group, CreditAccess India N.V. held a 73.74% stake in the company as on Q2FY23.



**Products & Services:** The company offers a wide range of lending products such as income generation, individual loans, family welfare, home improvement and emergency loans. Each of these products has been designed based on customer needs and requests.

SHP	Sep - 22 (%)	Jun - 22 (%)	Change
Promoters	73.74	73.82	-0.08
FPI	9.33	8.67	0.66
DII	12.70	10.75	1.95
Public & Others	4.23	6.76	-2.53
Pledged	0.00	0.00	0.00

**Subsidiaries:** The Company has 2 subsidiaries and 1 step-down subsidiary as on March 31, 2022. There are no associates or joint venture companies.



Key Stats. - FY22	
NIM	11.3%
GNPA	3.1
NNPA	0.9%



## Key Rationale

- **Strong Position** – CA Grameen is one of the largest standalone microfinance institution in the country with an established track record of over two decades. The company has been able to scale the business at a robust rate in terms of size as well as operational presence, and all this while maintaining the operational parameters and infrastructure at comfortable levels. As customers with long credit history and association with CA Grameen have matured across loan cycles, the company started its retail finance portfolio in 2016 under which seasoned customers are offered loans of a higher ticket size. The Company's market share across its top four states of business operations was 24.3% in Karnataka, 16.3% in Maharashtra, 9.4% in Tamil Nadu and 7.1% in Madhya Pradesh. Within the NBFC-MFI segment, the Company maintained its position as the largest NBFC-MFI, with 16.5% share of the total GLP of the NBFC-MFI segment.
- **Acquisition of MMFL** – The acquisition of MMFL in March 2020 has deepened CA Grameen's rural presence, as about 96% of MMFL's borrowers are based in rural areas. Furthermore, the acquisition helped CA Grameen reduce the geographic concentration of gross AUM in Karnataka (including MMFL) to 36.9% in FY22 (FY19: 53%). Although the average AUM per borrower in the top three states of about Rs.49,700 was higher than Rs.34,300 of other states; the top three states have longer vintage customers than others, leading to a higher ticket size, lower operating cost and higher familiarity in operational dynamics between the company and its borrowers.
- **Q2FY23** – In Q2FY23, CreditAccess Grameen reported a good set of numbers. The highlight of the quarter has been the strong RoA delivery of 4% vs. 3.1% in Q1 driven by a healthy 90bps NIM expansion (QoQ). On the operational performance, disbursements grew by 12% YoY/104% QoQ at Rs.4375 crs translating into a GLP growth of 24% YoY at Rs.16539 crs. On the asset quality front, GNPA improved to 2.2% from 3.1% QoQ, aided by the write-off of ~Rs.163 crs. NII (Net Interest Income) stood at Rs.516 crs (+40% YoY, +12% QoQ) and NIM (Net Interest Margin) improved to 12% vs 11.1% QoQ. CA Grameen added 2.8 Lac borrowers during the quarter taking the total customer base to 38 Lac borrowers. ~47% of the new borrower addition over the past 12 months was from outside of the Top-3 states.
- **Financial Performance** – The company's financial profile remains robust as reflected in its AUM growth over the years. The AUM which is nothing but the GLP (Gross Loan Portfolio) of the company has grown at a CAGR of 53% in FY07-12, 52% in FY13-FY17 and 40% in FY18-22 Period. The Pre-Provisioning Operating Profit grown at a CAGR of 37% from Rs.225 crs in FY17 to Rs.1078 crs in FY22. The PAT has grown at a CAGR of 37% from Rs.75 crs in FY17 to Rs.357 crs in FY22.

**Ratios - FY22**

ROE	9%
ROA	2%
Div. Yield	0.00%
P/BV	3.8
Face Value	10.00

**Industry Analysis**

The Indian microfinance industry comprises of various entities serving the bottom of the pyramid including Non-Banking Financial Companies - Micro Finance Institutions (NBFC-MFIs), Banks, Small Finance Banks (SFBs), NBFCs, and non-profit MFIs. At the end of March 2022, the Indian microfinance industry's total gross loan portfolio (GLP) stood at Rs.2,85,441 crs, clocking 10.0% YoY growth with 58 million unique borrowers. The NBFC-MFI segment accounted for 35.2% of the universe portfolio, with Banks at 40.0%, SFBs at 16.9%, and NBFCs/Others at 7.9%. A total of 202 lending institutions served microfinance borrowers - 84 NBFC-MFIs, 12 Banks, 9 SFBs, 58 NBFCs, and 39 others. The NBFC-MFI segment is governed by the Reserve Bank of India (RBI) and two industry self-regulatory organisations (MFIN and Sa-Dhan). The GLP of the NBFC-MFI segment stood at Rs.1,00,407 crs, a 24.7% YoY growth largely centered around serving the needs of the existing customers during the time of crisis.

**Growth Drivers**

The RBI's new regulatory regime for micro finance loans effective April 2022 has done away with interest rate cap applicable on loans given by NBFC-MFIs, and also supports growth by enabling players to calibrate pricing in line with customer risk.

Despite its larger contribution to GDP of 47%, the rural segment's share in credit remains fairly low at 10% of the overall credit outstanding. This provides a huge market opportunity for MFI players present in the segment.

Digitalisation to bring down costs, improve collection efficiency and profitability for MFIs. CRISIL Research expects that the lower cost of servicing customers, better productivity and lower credit costs through the use of technology will help MFIs improve their profitability.





## Peer Analysis

**Competitors:** Spandana Sphoorty Financial, Satin Creditcare Network, etc.

CA Grameen's superior return ratios, Market leader Position, deep rural penetration and best-in-class asset quality underpin premium valuations for the company when compared with its peers in the Microfinance Space.

Company	CMP	Mcap	GNPA	NNPA	P/BV*	BV*
CA Grameen	981	15295	3.1%	0.9%	3.5	281
Spandana	606	4282	17.7%	9.7%	1.5	404

\* Indicates H1FY23 Book value

## Outlook

The new microfinance guideline allows the company to undertake risk-based pricing, which the company has implemented based on the geography and customer vintage. Given that CA Grameen's lending rates are the lowest in the industry, it provides the company ample headroom to pass on any rate hike to its customers. With its ability to reprice its loans at a higher rate and Cost of Funds unlikely to witness a very sharp increase, the management expects to maintain NIMs at 12% over the medium term with a 50-70bps expansion in FY23E and another 50-60bps in FY24E. The company will look to strengthen its branch infrastructure by 10-12% in FY23. While branch additions are generally more pronounced in H1, however, in H1FY23 focus remained on improving the operational efficiency on the existing branches. The management believes there is ample scope for the existing branches to mature and contribute meaningfully to overall growth. The retail portfolio ramp-up is currently at a nascent stage and any significant movement in the portfolio is unlikely in FY23E. However, the management expects the ramp-up in the portfolio to begin FY24E onwards.



## Valuation

CA Grameen's deep rural penetration and customer-centric business model present it with ample growth opportunities and benefit from the under penetration in the rural markets. Thus, supported by strong customer addition and branch infrastructure strengthening along with existing branches contributing meaningfully to growth, CA Grameen is poised for robust growth. Hence, we recommend a BUY rating in the stock with the target price (TP) of Rs.1145, 3.0x FY24E BV.

## Risks

- **Geographical Concentration Risk** – CA Grameen faces concentration risk as ~80% of its operations is based out of the top 3 states (Karnataka, Maharashtra, and Tamil Nadu). Any adverse developments in these states can impact the company's business, results of operations, financial conditions and cash flows.
- **Covid Resurgence risk** – Increased focus on collections by strengthening the collections infrastructure and gradual opening up of the economy has helped MFIs to significantly improve their collections, with collections efficiency reaching pre-Covid levels. However, the possibility of resurgence of Covid-19 cases and any future lockdown remains a key risk for the performance.
- **Socio-Political Risk** – Since the business of these institutions entails lending to the poor and downtrodden sections of the society, MFIs will remain exposed to socially sensitive factors, especially those related to interest rates and, consequently, to tighter regulations and legislation.

Source – Tickertape, Company's Website, BSE Website.

Thanks & Regards

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