

Industry	Financial
Bloomberg	CREDAG IN
BSE CODE	541770

Robust Growth Accompanying Strong Expansion Drive

RATING	BUY
CMP	638
Price Target	749
Potential Upside	17%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	689/275
Mkt Capital (Rs Cr)	9,200
Free float (%)	13%
Avg. Vol 1M (,000)	142
No. of Shares (Cr)	14
Promoters Pledged %	0%

Fig in Rs Cr

	FY19	FY20E	FY21E
NII	802	1040	1240
PPP	573	690	822
PAT	322	439	531
NIM %	13.2	12.6	11.6
EPS (Rs)	22	31	37
EPS	35.4	36.4	21.0
ROE (%)	16.9	17.0	17.3
ROA (%)	5.2	5.2	4.9
BV	165	195	232
P/B (X)	3.0	3.3	2.7
P/E (x)	22.4	20.9	17.3

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2QFY20 Result Update

- ❑ NII has grown at the rate of 26% YoY driven by strong AUM growth of 36% YoY. Other income has grown at 15% YoY. PAT has grown at 36% YoY as of 2QFY20. Higher operating expense growth by 41% YoY and higher credit cost up to 1.43% is a drag down on the profit.
- ❑ AUM has grown by 36% YoY as per our expectations. Growth was led by income generation loans at 48% YoY seconded by retail finance growth by 173% YoY on a lower base. The proportion of the JLG loan, non-income generation loan and retail finance maintains a steady mix of 84%, 10% & 5%. Disbursement growth stood at 39% YoY to Rs 2186 Cr.
- ❑ The securitization stands at the rate of 6% as at 2QFY20 while the borrowing growth stood at 45%. The share of foreign borrowings stands improved to 23% of the total liability sequentially. Rs 125.8 Cr of Direct Assignment was completed in Q2 FY20 at 8.5%.
- ❑ The GNPA at 60 days (new GNPA recognition) stands improved from 55 bps to 52 bps while management has been able to maintain 100% provisioning. The slippages have increased this quarter on the back of incessant rain & flooding situation as CREDITACC maintain 100% provisioning the credit cost has remained elevated during the quarter. The collection efficiency has declined marginally from 98.9% to 98.8% QoQ.
- ❑ The C/I ratio has increased from 35% to 40% as of 2QFY20. Management has added 134 branches during the quarter along with 1176 employees. The number of Kendra has increased from 169 to 175 QoQ while the loan officers have increased by 945 QoQ. CREDITACC has entered into Rajasthan, Gujarat, Bihar and Uttar Pradesh in 2QFY20. The number of district has increased from 170 to 213 as at 2QFY20.
- ❑ The average outstanding per customer has decreased from Rs 17800 to Rs 16800 sequentially as the share of new customer increases on the back of expansion drive. The share of unique customer stands at 33%.

Strong OPEX Growth

Management has added 217 branches in 2HFY20; it has completed 95% of its yearly expansion in 2HFY20. Management has maintained its contiguous district expansion in 5 states (Rajasthan, Gujarat, Bihar & Uttar Pradesh) in Q2 FY20. Management expects that branches will break even in the next 14 month time frame. Management expects the majority of the expenses has been incurred during the quarter going ahead income will from these branches lead to improved profitability.

Slight Rise in the Stress Assets

Management has experienced some rise in the stress due to flooding situations in the state of Maharashtra & Karnataka in the quarter. Management states stage 2 provisioning has gone up by Rs 11-12 Cr due to flood situation in 40-50 affected branches. PAR 30 is at Rs 45 Cr. Going ahead provision is expected to normalize in 2HFY20. Stage 2 asset stood at Rs 53 Cr v/s Rs 10 Cr QoQ.

View and Valuation

CREDITACC has been able to maintain strong growth of 36% along with pristine asset quality. Management is focusing on declining its geographical skewness. It has already finished off 95% of the expansion target of the year and has kept the branches and trained employee ready to encash upon opportunities in the 2HFY20. Margin has remained affected during the quarter, management has guided stability in the cost of borrowings will lead to spread improvement going ahead. Although the credit cost has spiked in the near term on the back of incessant rainfall we remain optimistic of the trend line in the 2HFY20 on the back strong rabi crop expectation. We value the stock at 3.2x P/B for FY21e to Rs 749. We maintain BUY.

Key Risks to our rating and target

- ❑ Income generation from the new branches will led to lower C/I ratio.
- ❑ Improvement in the collection efficiency.

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2QFY20 Results Below Our Expectations

Strong Growth

Fig in Rs Cr

Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	301	320	312	364	381	26.6%	4.7%	457	702	53.6%
Interest Exp.	107	110	103	124	136	27.1%	9.6%	207	324	56.3%
NII	195	210	210	241	246	26.3%	2.2%	250	377	51.3%
Other Income	9	31	24	12	10	14.9%	-19.5%	10	8	-23.1%
Total Income	203	241	234	253	256	25.8%	1.2%	259	385	48.5%
Ope Exp.	73	77	82	89	102	41.1%	14.5%	115	160	39.1%
PPP	131	164	151	164	154	17.4%	-6.1%	144	225	56.0%
Provisions	17	10	34	15	28	0.64706	0.79186	14	109	6.7477
PBT	114	154	117	148	126	10.4%	-15.0%	130	117	-10.6%
Tax	41	54	41	52	26	-36%	-50.0%	47	41	-11.3%
Net Profit	73	100	76	96	100	35.8%	4.1%	213	322	51%

Concall Highlights

- CREDITACC appoints its Director, Mr. Paolo Brichetti as Non-executive Chairman and inducts Mr. Manoj Kumar as Independent Director.
- Management has guided NIM to 12-12.5% range, but with the rise in leverage, the NIM is expected to get impacted slightly.
- Management has raised Rs 1472 Cr at the weighted average rate of 9.85%. The long term borrowings stood at 10.5-11.5% while the short term borrowings stood at 8.5-9.5% while the blended cost is at 10%. Management has Rs 2600 Cr of sanctions, Out of which 40% of the sanction is in the 8.5-9.5% range. Management has raised Rs 100 oversea borrowing, Rs 300 Cr from financial institution & Rs 125 Cr from Direct Assignment while rest from long term borrowings.
- Almost 100% of the foreign borrowing is hedged on the lender side going ahead management has guided to raise foreign bonds that need to be hedged by CREDITACC.
- Management has guided 30% CAGR for the next 5 years. Management has reiterated PAT guidance of Rs 425-450 Cr for FY20. The effective tax rate for FY20 is 15.17%.
- All the branches are opened with trained employees at hand to encash strong growth in the 2HFY20.
- The unique customer to CREDITACC stood at 33%, for newer geography it stood at a slightly higher range at 44%. The quantum of newer customers stood at 40%. 1.4 Lakhs of the customer were added during the quarter. 60-62% of the customers are in the second cycle of the loan. Rejection rate stands at 40% as at 2QFY20, the major reason for rejection was over leveraging and borrowed from more than 3 institutions. 60% of incremental disbursement comes from the existing customer.
- 40-45% of the employee are from borrowers family, they have placed 100 Km away from their village. Employees work for 5 days a week. 90% of the remuneration is fixed while 10% is an incentive for process following and customer satisfaction.
- The average ticket size is around Rs 25000-35000 for the new customer.
- Management has to decline promoter holding to 75% in the next 3 years.
- Management has guided to reduce the share of Karnataka to 30% in the next 3 years.
- Management provides customers the flexibility to decide the repayment. The collection stands at GL (54.3% weekly, 38.5% bi-weekly, 7.1% monthly), RF (100% monthly).
- Coverage under personal insolvency case protects customer who has Rs 60000 of income with Rs 30000 of borrowings can get coverage under this act if it is not able to pay. Such cases come under the credit bureau so no further lending to this customer. The average income of CREDITACC customers stood at Rs 1.2-1.6 Lakhs at the household level.
- Management has guided to maintain at least CAR at a 20% level.

Profitability Matrix

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20.	2QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	36.0	33.0	35.7	31.9	35.2	35.4	40.0	4.32	4.65
Empl. Cost/ Tot. Exp. %	63.4	65.0	64.2	63.9	60.8	65.5	63.9	-0.29	-1.66
Other Exp/Tot. Exp.%	34.1	32.4	32.9	33.5	36.7	30.8	30.1	-2.84	-0.75
Provision/PPP %	(2.0)	11.0	12.9	6.3	22.4	9.5	18.0	5.19	8.59
Tax Rate %	35.2	35.7	35.6	35.0	35.0	35.0	35.0	-0.59	0.00
Int Exp./Int Inc. (%)	33.0	34.3	35.4	34.4	32.9	33.9	35.5	0.14	1.58
Other Inc./NII %	2.0	1.5	2.9	9.7	7.7	3.4	2.9	0.02	-0.50
PPP/ Net Income %	64.0	67.0	64.3	68.1	64.8	64.6	60.0	-4.32	-4.65
PAT/ Net Income %	42.3	38.3	36.1	41.4	32.6	37.9	39.0	2.86	1.10
NII Growth % (YoY)	-	181.0	57.6	69.9	27.5	29.1	26.3	-31.26	-2.74
PPP Growth YoY %	-	257.6	65.6	106.0	39.6	29.6	17.4	-48.22	-12.25
PAT Growth %	-	798.1	20.5	54.9	6.2	32.7	35.8	15.26	3.08

Margin Performance

Margin %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20.	2QFY20	YoY (+/-)	QoQ (+/-)
Overall Yield (%)	20.6	20.7	20.7	20.5	18.6	19.7	19.5	-1.20	-0.20
Cost of Funds (%)	10.3	10.2	9.9	9.4	8.0	10.2	10.3	0.40	0.10
Spreads(Cal) (%)	10.3	10.5	10.8	11.1	10.6	9.5	9.2	-1.60	-0.30
NIM Calc.(%)	15.7	16.2	15.3	15.0	13.7	14.4	13.7	-1.66	-0.76

Exhibit: Yield and Cost

Spreads has declined sequentially

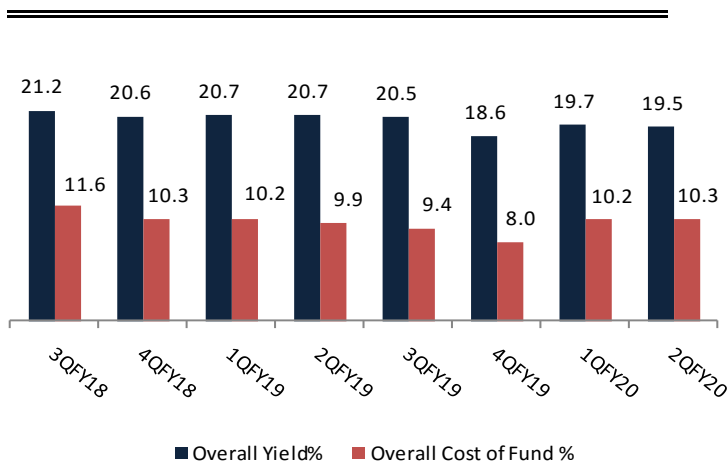
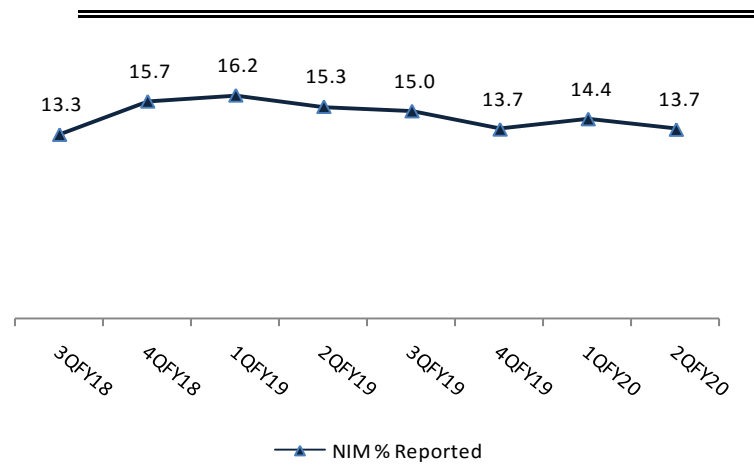


Exhibit: Net Interest Margin

NIM (Calc.) has declined QoQ



Asset & Borrowings Growth Trend

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Disbursements	1296	1911	1616	1571	1762	3272	2310	2186
Growth YoY %	83	167	-4	31	36	71	43	39
AUM	4075	4975	5468	5794	6085	7159	7619	7905
Growth YoY %	0	62	46	47	49	44	39	36
Borrowings	2992	3603	4090	3903	4260	4886	5100	5495
Growth YoY %	0	0	32	16	42	36	25	41

Asset Composition

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
MFI Loans (%)	89	86	80	78	78	85	85	84
Non-Income Gen. (%)	11	13	18	19	19	10	10	10
Retail Finances (%)	0	1	2	3	3	5	5	5

Exhibit: AUM Growth %

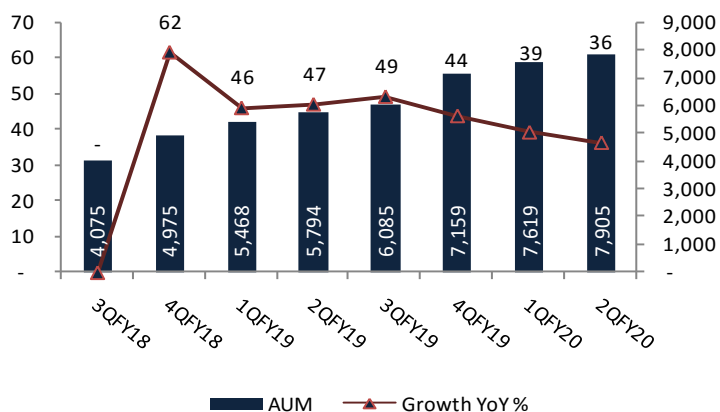
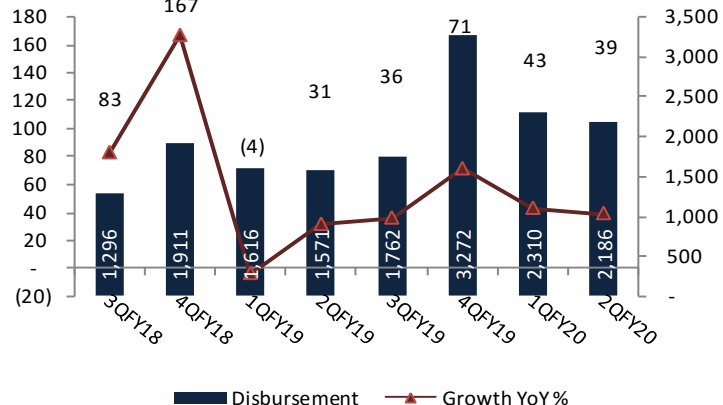


Exhibit: Disbursement Growth %



AUM Break up

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
IGL (%)	86	80	78	78	85	85	84
Family welfare (%)	2	7	7	4	1	3	4
Emergency (%)	0	0	0	0	0	0	0
Retail Finance (%)	1	2	3	3	5	5	5
Total	100	100	100	100	100	100	100

Asset Quality

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
GNPA Calc.	98	47	56	60	40	41	40
GNPA (%)	1.97	0.90	1.00	1.01	0.61	0.55	0.52
NNPA Calc.	-	3	3	-	-	-	-
NNPA (%)	-	0.05	0.05	-	-	-	-
PCR (%)	100	94	95	100	100	100	100

Branch

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Group Loan	486	541	610	610	610	693	822
Rural Finance	30	32	46	49	60	60	65
Total	516	573	656	659	670	753	887
Kendras	130	134	143	157	164	169	175
District	132	146	156	156	157	170	213

Geography Concentration

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Karnataka (%)	58	-	57	54	53	52	51
Maharashtra (%)	27	-	26	26	26	26	26
Madhya Pradesh (%)	6	-	-	-	8	8	8
Tamil Nadu (%)	7	-	8	10	10	11	11
Others (%)	2	-	9	10	4	4	4

Employees

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Employees	6306	6,575	7,355	7,798	8,064	8,641	9,817
Group Loan		6,043	6,673	7,008	7,135	7,647	8,764
Rural Finance		532	682	790	929	994	1,053

Exhibit: GLP/Branch

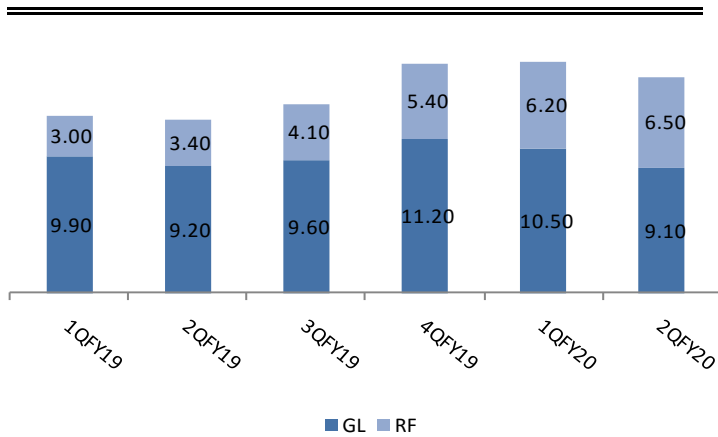
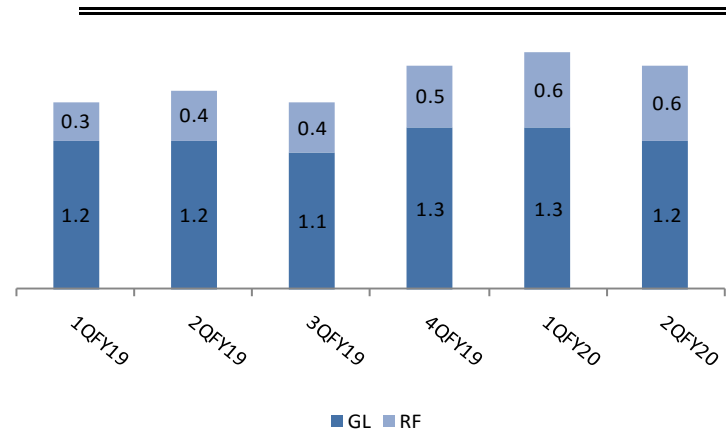


Exhibit: GLP/Loan Officer



Exposure of Districts

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
< 0.5%	78	91	101	103	105	118	163
0.5%-1%	22	23	24	20	19	19	17
1%-3%	26	26	26	29	29	29	29
3%-5%	5	5	4	3	3	4	4
> 5%	1	1	1	1	1		

District in terms of portfolio

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Top 1 (%)	6	6	5	5	5	5	5
Top 3 (%)	15	14	14	13	13	13	13
Top 5 (%)	22	22	21	20	20	19	19
Top 10 (%)	36	35	34	32	32	31	31
Other (%)	64	65	66	68	68	69	60

Contribution to overall growth %

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Top 1 (%)	6	5	3	(1)	5	3	3
Top 3 (%)	13	12	12	2	11	9	7
Top 5 (%)	21	20	11	1	16	14	10
Top 10 (%)	34	31	18	(4)	27	25	18
Other (%)	66	69	82	104	73	75	82

Average O/S Per Customer

Fig in Rs Cr

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
IGL	18,700	17,900	17,300	20,800	20,900	20,500
Family Welfare	8,200	7,400	5,000	2,900	7,600	7,200
Home Improvement	10,500	10,000	9,600	9,100	8,200	7,500
Emergency	600	600	600	700	600	600
Retail Finance	77,100	76,500	73,500	77,200	73,400	70,600
Average	15,900	15,100	14,200	17,300	17,800	16,800

Financial Details

Balance Sheet

Fig in Rs cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	53	73	73	86	128	144	144	144
>> Equity Capital	53	73	73	86	128	144	144	144
>> Preference Capital								
Reserves & Surplus	158	308	392	605	1309	2222	2660	3191
Networth	211	381	465	691	1437	2365	2804	3335
Change (%)	88	80	22	49	108	65	19	19
Total Borrowings	805	1291	2297	2668	3603	4886	6508	8461
Change (%)	107	60	78	16	35	36	33	30
Provisions	9	15	31	148	7	12	13	14
Other Liabilities	37	45	20	57	67	95	114	136
Total Liabilities	1062	1731	2813	3564	5114	7357	9467	11996
Investments	0	0	0	0	0	0	0	0
Loans	677	1353	2475	3089	4896	6603	8609	11131
Change (%)	71	100	83	25	58	35	30	29
Fixed Assets	3	6	11	15	17	27	33	42
Other Assets	57	92	71	96	58	111	134	174
Cash Balances	325	280	255	364	143	616	690	649
Total Assets	1062	1731	2813	3564	5114	7357	9467	11996

Income Statement

Fig in Rs cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	142	268	457	702	860	1,218	1,589	1,935
Interest expended	69	128	207	324	354	417	549	696
Net Interest Income	73	140	250	377	506	802	1,040	1,240
Change (%)	57	92	78	51	34	58	30	19
Other Income	5	13	10	8	8	8	39	29
Change (%)	116	142	(26)	(23)	3	9	366	(26)
Total Net Income	78	154	259	385	518	867	1,079	1,269
Change (%)	60	96	69	48	35	67	25	18
Operating Expenses	45	71	115	160	203	294	388	447
Change (%)	27	57	63	39	27	45	32	15
>> Employee Expenses	29	43	71	105	130	186	252	282
Change (%)	30	49	63	48	25	43	36	12
>>Other Expenses	15	25	42	51	67	100	121	152
Pre-provisioning Profit	33	83	144	225	315	573	690	822
Change (%)	149	148	74	56	40	82	21	19
Provisions	6	7	14	109	(13)	75	94	104
Change (%)	31	19	105	675	(112)	(658)	26	11
PBT	28	76	130	117	328	498	596	717
Tax	9	27	47	41	116	176	157	187
Profit After Tax	19	49	84	75	213	322	439	531
Change (%)	119	167	69	(10)	182	51	36	21
Adjusted Profit After Tax	19	49	84	75	213	322	439	531
Change (%)	119	167	69	(10)	182	51	36	21

Financial Details

Key Ratios

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics								
AUM	810	1447	2539	3075	4975	7159	9307	12099
>> Off-Book AUM	0	0	0	0	0	0	0	0
AUM Growth (%)	54.5	78.8	75.4	21.1	61.8	43.9	30.0	30.0
Borrowing Growth (%)	107.1	60.3	78.0	16.2	35.0	35.6	33.2	30.0
Loan/Borrowing Ratio	0.8	1.0	1.1	1.2	1.4	1.4	1.3	1.3
Disbursement (Rs Cr)	0	1894	3349	3403	6082	8221	10702	14122
Disbursement Growth (%)	-	-	77	2	79	35	30	32
CRAR (%)	32	28	21	30	29	36	33	30
>> Tier 1 (%)	28.7	26.6	17.6	20.2	28.1	-	31.5	29.6
>> Tier 2 (%)	2.8	1.6	3.9	9.5	0.9	-	1.1	0.9
Debt/Equity (x)	3.8	3.4	4.9	3.9	2.5	2.1	2.3	2.5

Assets Quality Metrics

Gross NPA (Rs)	0	0	2	3	98	40	56	85
Gross NPA (%)	0.0	0.0	0.1	0.1	2.0	0.6	0.6	0.7
Net NPA (Rs)	-	-	-	-	-	-	-	-
Net NPA (%)	-	-	-	-	-	-	-	-
Provision Coverage (%)	100	100	100	100	100	100	100	100
Provision/Average Advances (%)	0.9	0.6	0.7	3.9	(0.3)	1.2	1.1	1.0

Margin Metrics

Yield On Advances (%)	21.3	23.8	22.9	25.0	21.4	19.8	19.3	18.1
Cost Of Funds (%)	9.4	10.8	11.1	13.0	11.3	9.8	9.6	9.3
Spread (%)	11.9	12.9	11.9	12.0	10.1	9.9	9.7	8.8
NIM on AUM (%)	10.9	12.4	12.5	13.4	12.6	13.2	12.6	11.6

Profitability & Efficiency Metrics

Int. Expended/Int.Earned (%)	48.8	47.7	45.4	46.2	41.1	34.2	34.6	35.9
Other Income/NII (%)	7.5	9.5	3.9	2.0	2.3	8.1	3.8	2.3
Operating Profit/ Net Income (%)	42.6	54.0	55.7	58.5	60.8	66.1	64.0	64.8
Net Profit/Net Income (%)	23.6	32.2	32.3	19.5	41.0	37.1	40.7	41.8
Cost to Income (%)	57.4	46.0	44.3	41.5	39.2	33.9	36.0	35.2
Employee Exp/ Net Income (%)	37.2	28.3	27.3	27.2	25.2	21.5	23.4	22.2
Cost on Average Assets (%)	5.6	5.1	5.1	5.0	4.7	4.7	4.6	4.2
Provisions/PPP (%)	17.2	8.2	9.7	48.2	(4.3)	13.1	13.6	12.7
Tax Rate (%)	33.1	35.0	35.7	35.5	35.3	35.4	26.4	26.0

Valuation Ratio Metrics

EPS (Rs)	3	7	11	9	17	22	31	37
Change (%)	63.6	93.9	69.4	(23.5)	88.5	35.4	36.4	21.0
ROAE (%)	11.4	16.7	19.8	13.0	20.0	16.9	17.0	17.3
ROAA (%)	2.3	3.5	3.7	2.4	4.9	5.2	5.2	4.9
Dividend Payout (%)	-	-	-	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-	-	-	-
Dividend Per Share	-	-	-	-	-	-	-	-
Book Value (Rs)	40	52	64	81	112	165	195	232
Change (%)	40.5	31.0	22.1	26.5	38.8	47.2	18.6	18.9
P/B (X)	-	-	-	-	-	3.0	3.3	2.7
P/E (X)	-	-	-	-	-	22.4	20.9	17.3

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<i>Interest Income</i>	17.7	19.2	20.1	22.0	19.8	19.5	18.9	18.0
<i>Interest expended</i>	8.6	9.2	9.1	10.2	8.1	6.7	6.5	6.5
<i>Net Interest Income</i>	9.1	10.0	11.0	11.8	11.7	12.9	12.4	11.6
<i>Non-Fund Based Income</i>	0.7	1.0	0.4	0.2	0.3	1.0	0.5	0.3
<i>Total Income</i>	9.8	11.0	11.4	12.1	11.9	13.9	12.8	11.8
<i>Total Operating Expenses</i>	5.6	5.1	5.1	5.0	4.7	4.7	4.6	4.2
>> <i>Employee Expenses</i>	3.6	3.1	3.1	3.3	3.0	3.0	3.0	2.6
>> <i>Other Expenses</i>	2.0	1.9	1.9	1.7	1.7	1.7	1.6	1.5
<i>Operating Profit</i>	4.2	5.9	6.4	7.1	7.3	9.2	8.2	7.7
<i>Provisions</i>	0.7	0.5	0.6	3.4	(0.3)	1.2	1.1	1.0
<i>Others</i>	-	-	-	-	-	-	-	-
<i>PBT</i>	3.4	5.4	5.7	3.7	7.6	8.0	7.1	6.7
<i>Tax</i>	1.1	1.9	2.1	1.3	2.7	2.8	1.9	1.7
<i>PAT/RoAA</i>	2.3	3.5	3.7	2.4	4.9	5.2	5.2	4.9
<i>Equity Multiplier (x)</i>	5.0	4.7	5.4	5.5	4.1	3.3	3.3	3.5
<i>ROAE</i>	11.4	16.7	19.8	13.0	20.0	16.9	17.0	17.3

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