

Industry
Bloomberg
BSE CODE

Financial
CREDAG IN
541770

Strong Growth With Better Geographical Reach

RATING	BUY
CMP	812
Price Target	922
Potential Upside	14%

Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	849/350
Mkt Capital (Rs Cr)	11,642
Free float (%)	20%
Avg. Vol 1M (,000)	4
No. of Shares (Cr)	14
Promoters Pledged %	20%

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	802	1041	1272
PPP	573	710	850
PAT	322	413	532
NIM %	13.2	12.4	11.4
EPS (Rs)	22	29	37
EPS growth (%)	0.4	0.3	0.3
ROE (%)	16.9	16.1	17.5
ROA (%)	5.2	4.8	4.8
BV	165	194	231
P/B (X)	3.0	4.2	3.5
P/E (x)	22.4	28.2	21.9

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3QFY20 Result Update

- NII growth has been strong at 29% YoY driven by 46% YoY AUM growth. Higher provisioning has led to eroding Profitability. PAT has grown at a rate of 8% YoY.
- Portfolio yield has increased to 19.7% from 19.5% QoQ, the cost of borrowings declined to 10% from 10.2%, the incremental cost of borrowings has declined to 9.4% from 10% sequentially. Margin has improved to 12.40% from 12.10% sequentially.
- CREDITACC has grown at a strong rate to have a substantial presence in the newer states in FY20. It has added 40 more branches in the newer states so in FY21 the operating expense is expected to be on a slightly lower side.
- AUM growth was mainly driven by individual loans contributing up to 85% of the portfolio. Disbursement stood strong at 34% YoY. Up to 45% of the incremental disbursement is towards states other than Karnataka.
- The Group Lending Loan Usage stood at 44% for Animal Husbandry, Trading 19%, Partly Agri related 15%, Production 9%, Housing 4%, Education 2%, Others 7%
- GNPA has increased to 85 bps from 52 bps while NNPA has remained at a 0 level. The provision for the quarter stood at Rs 55 Cr, out of which 29 is for normal provisioning while the incremental is for distress in 2 districts in the North of Karnataka along with fewer districts in Kolhapur and Sangli districts of Maharashtra because of heavy rainfall. The on-time collection efficiency stood at 98.3%. Currently, 75-80% customers have regularized their accounts
- 8.9 Lakh GL borrowers have completed 3 years, with strong client retention.
- The kendras stood at 185 while the number of branches stood at 928 (GL stood at 858 & RF stood at 70). The loan officer stood at 7587 (6892 GL & 695 RF).
- The portfolio exposure of 3-5% stood at 4. It is expected to further decline to 2 in a few years time frame.
- Share of Karnataka stood at 49%, Maharashtra stood at 27%, Tamil Nadu stood at 11%, Madhya Pradesh stood at 8.6% while Chhattisgarh stood at 2.5%.
- Collection frequency: GL (55.5% weekly, 38.3% bi-weekly, 6.1% monthly), RF (100% monthly).
- The Company is now operating in 230 districts in the 13 states (Karnataka, Maharashtra, Tamil Nadu, Chhattisgarh, Madhya Pradesh, Odisha, Kerala, Goa, Gujarat, Rajasthan, Uttar Pradesh, Bihar and Jharkhand) and one union territory (Puducherry) in India through 928 branches.
- The merger with Madura financial is expected to be finalized in FY20.

View and Valuation

AUM growth has remained robust with strong growth coming from states other than Karnataka. We expect lower operating expenditure to provide slight boost to the PAT in FY21. Margin pressure has come off with decline in the cost of fund. The asset quality has deteriorated on the back of heavy rain affected district in the state of Maharashtra and Karnataka, Out of the total exposure of Rs 140 Cr, Rs 26 Cr is accrued as provisioning in this particular quarter. Management remains optimistic that credit cost will normalize in 4QFY20 as 75-80% of the customer has regularized their payment. Management is also continuous reducing its Karnataka portfolio has guided to bring down the portfolio to 30% level. We maintain our BUY stance and value the stock at 4x PB FY21e at 922.

Key Risks to our rating and target

- Acquisition update on Madura
- Improvement in the collection efficiency.

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Strong Growth

3QFY20 Results In Line With Our Expectations

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ %	FY18	FY19	YoY %
Interest Inc.	320	312	364	381	417	30.4%	9.2%	457	702	53.6%
Interest Exp.	110	103	124	136	146	32.5%	7.7%	207	324	56.3%
NII	210	210	241	246	271	29.3%	10.1%	250	377	51.3%
Other Income	31	24	12	10	37	18.2%	266.4%	10	8	-23.1%
Total Income	241	234	253	256	308	27.8%	20.2%	259	385	48.5%
Ope Exp.	77	82	89	102	107	39.6%	4.5%	115	160	39.1%
PPP	164	151	164	154	201	22.3%	30.6%	144	225	56.0%
Provisions	10	34	15	28	55	4.321	0.9733	14	109	6.7477
PBT	154	117	148	126	146	-5.1%	15.9%	130	117	-10.6%
Tax	54	41	52	26	38	-30%	45.2%	47	41	-11.3%
Net Profit	100	76	96	100	108	8.3%	8.3%	213	322	51%

Concall Highlights

- CREDITACC has raised Rs 2183 Cr at a weighted average rate of 9.3% with Rs 398 Cr through the direct assignment. The IRR has come down because of the revision of the interest rate of the portfolio. DA is expected to remain at a 10% level of the portfolio, this quarter DA (direct assignment) interest rate stood at 8%. The term loan raised from SBI is at 10%.
- The impact of floods in North Karnataka & South Maharashtra has led to higher provisioning of Rs 54 Cr (Out of Rs 26 Cr is concerning these specific issues). There is some external interference in 2 districts in coastal Karnataka that has led to stress in the month of August along with the Karnataka loan waiver scheme, which led to the stress of Rs 120 Cr. Now 75-80% of the customers have regularized their accounts. The effect is ring-fenced in this 2 district with 1% exposure in each of the districts with collection at 70%. The overall on-time repayment collection efficiency is at 98.3%. Management does not expect a further impact on this portfolio.
- Maharashtra flood (Kohlapur, Belgaum & Sangli) in August 2019 has a total impact of Rs 200-300 Cr flood impact, out of Rs 80 Cr was CREDITACC exposure. Now the situation has improved with only Rs 20 Cr is in 60 + dpd while 80% of the exposure is already collected. Disbursement is expected to remain muted in these districts.
- Management has guided to lower the operating expense bandwidth in FY21. To have sufficient exposure in newer states management has opened almost 40 additional branches of FY21 target.
- Management says credit cost to remain moderate in 4QFY20 while it will lead CREDITACC to meet PAT guidance. Overall credit cost should not increase by 1.25% level. Weekly collection adopted by CREDITACC has led to better collection.
- The branch becomes productive in 14-18 months time frame.
- The average ticket size is increasing because of more loans to an existing customer.
- Par 30 is Rs 90 Cr par 60 is Rs 35 Cr while 90 is Rs 21 Cr. Stage 2 (16-60 dpd) is at Rs 90 Cr.
- Business loans for graduated customers who were given higher repayment capacity. With a minimum of 3 cycle completion.
- In the next 3 year period, the share of Karnataka will come down to less than 30% while Maharashtra will be around 20%. Growth will be maintained through contiguous district expansion.
- 42% of the customer has exposure to only with CREDITACC.
- Only 4 districts have more than 3% portfolio exposure, Management continuous to decrease the exposure to 2% of the portfolio.
- Retail loan is expected to be around 95% level of the portfolio for the next 2,3 quarters.
- The acquisition is expected to be completed in this financial year. The merger is expected to increase customer acquisition as these companies have only a 5% overlap in customers.

Profitability Matrix

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	33.0	35.7	31.9	35.2	35.4	40.0	34.8	2.93	-5.21
Empl. Cost/ Tot. Exp. %	65.0	64.2	63.9	60.8	65.5	63.9	63.0	-0.89	-0.88
Other Exp/Tot. Exp.%	32.4	32.9	33.5	36.7	30.8	30.1	32.3	-1.23	2.19
Provision/PPP %	11.0	12.9	6.3	22.4	9.5	18.0	27.3	20.99	9.22
Tax Rate %	35.7	35.6	35.0	35.0	35.0	35.0	26.0	-9.12	5.23
Int Exp./Int Inc. (%)	34.3	35.4	34.4	32.9	33.9	35.5	35.0	0.56	-0.52
Other Inc./NII %	1.5	2.9	9.7	7.7	3.4	2.9	8.8	-0.90	5.92
PPP/ Net Income %	67.0	64.3	68.1	64.8	64.6	60.0	65.2	-2.93	5.21
PAT/ Net Income %	38.3	36.1	41.4	32.6	37.9	39.0	35.1	-6.34	-3.86
NII Growth % (YoY)	181.0	57.6	69.9	27.5	29.1	26.3	29.3	-40.59	2.97
PPP Growth YoY %	257.6	65.6	106.0	39.6	29.6	17.4	22.3	-83.69	4.98
PAT Growth %	798.1	20.5	54.9	6.2	32.7	35.8	8.3	-46.63	-27.51

Margin Performance

MARGIN %	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Overall Yield (%)	20.7	20.7	20.5	18.6	19.7	19.5	19.7	-0.80	0.20
Cost of Funds (%)	10.2	9.9	9.4	8.0	10.2	10.3	10.0	0.64	-0.30
Spreads(Cal) (%)	10.5	10.8	11.1	10.6	9.5	9.2	9.7	-1.44	0.50
NIM Calc.(%)	16.2	15.3	15.0	13.7	14.4	13.7	13.7	-1.28	0.05

Exhibit: Yield and Cost

Spreads has declined sequentially

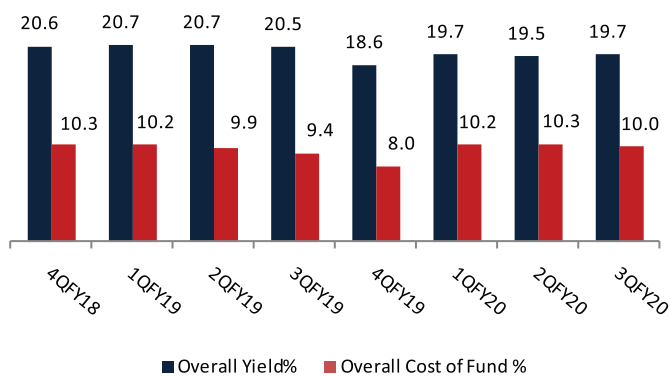
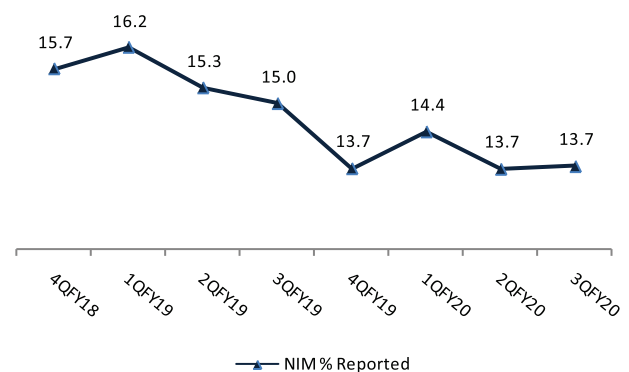


Exhibit: Net Interest Margin

NIM (Calc.) has remained Stable QoQ



Asset & Borrowings Growth Trend

Fig in Rs Cr

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Disbursements	1911	1616	1571	1762	3272	2310	2186	2977
Growth YoY %	167	-4	31	36	71	43	39	69
AUM	4975	5468	5794	6085	7159	7619	7905	8872
Growth YoY %	62	46	47	49	44	39	36	46
Borrowings	3603	4090	3903	4260	4886	5100	5642	6407
Growth YoY %	0	32	16	42	36	25	45	50

Asset Composition

MFI Loans (%)	86	80	78	78	85	85	84	85
Non-Income Gen. (%)	13	18	19	19	10	10	10	10
Retail Finances (%)	1	2	3	3	5	5	5	5

Exhibit: AUM Growth %

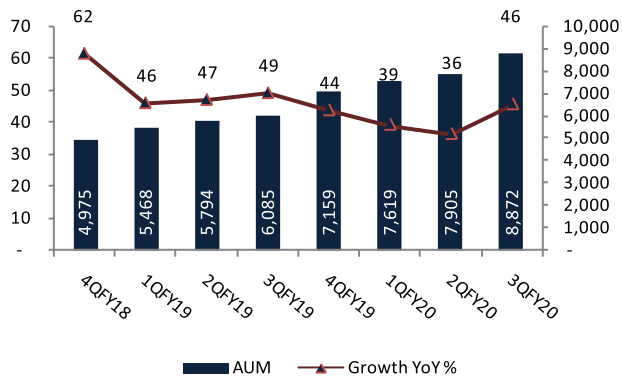
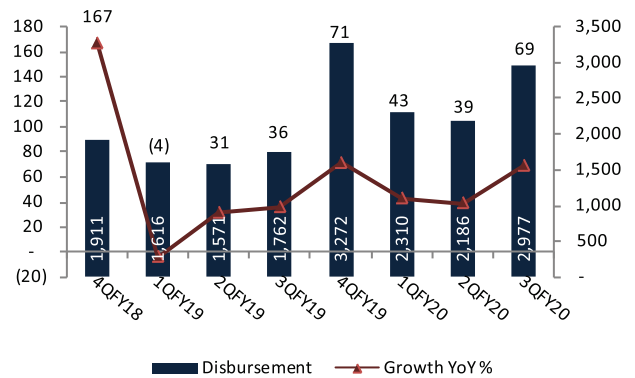


Exhibit: Disbursement Growth %



AUM Break up

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
IGL (%)	86	80	78	78	85	85	84	85
Family welfare (%)	2	7	7	4	1	3	4	3
Home Improve (%)	10	11	13	15	9	7	6	7
Emergency (%)	0	0	0	0	0	0	0	-
Retail Finance (%)	1	2	3	3	5	5	5	5
Total	100	100	100	100	100	100	100	100

Asset Quality

Fig in Rs Cr

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
GNPA Calc.	98	47	56	60	40	41	40	71
GNPA (%)	1.97	0.90	1.00	1.01	0.61	0.55	0.52	0.85
NNPA Calc.	-	3	3	-	-	-	-	-
NNPA (%)	-	0.05	0.05	-	-	-	-	-
PCR (%)	100	94	95	100	100	100	100	100

Branch

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Group Loan	486	541	610	610	610	693	822	928
Rural Finance	30	32	46	49	60	60	65	70
Total	516	573	656	659	670	753	887	928
Kendras	130	134	143	157	164	169	175	185
District	132	146	156	156	157	170	213	230

Geography Concentration

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Karnataka	58	-	57	54	53	52	51	49
Maharashtra	27	-	26	26	26	26	26	27
Madhya Pradesh	6	-	-	-	8	8	8	9
Tamil Nadu	7	-	8	10	10	11	11	11
Others	2	-	9	10	4	4	4	3

Employees

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Employees	6,306	6,575	7,355	7,798	8,064	8,641	9,817	10,465
Group Loan		6,043	6,673	7,008	7,135	7,647	8,764	9,361
Rural Finance		532	682	790	929	994	1,053	1,104

Exhibit: GLP/Branch

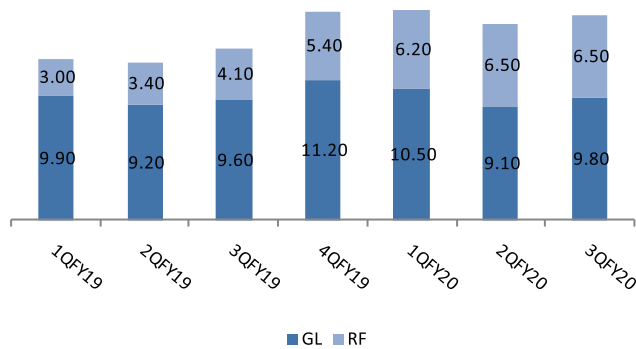
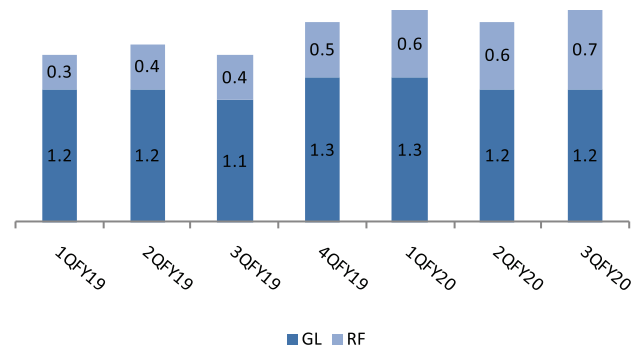


Exhibit: GLP/Loan Officer



Exposure of Districts

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
< 0.5%	78	91	101	103	105	118	163	180
0.5%-1%	22	23	24	20	19	19	17	16
1%-3%	26	26	26	29	29	29	29	30
3%-5%	5	5	4	3	3	4	4	4
> 5%	1	1	1	1	1			

District in terms of portfolio

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Top 1 (%)	6	6	5	5	5	5	5	8
Top 3 (%)	15	14	14	13	13	13	13	12
Top 5 (%)	22	22	21	20	20	19	19	18
Top 10 (%)	36	35	34	32	32	31	31	30
Other (%)	64	65	66	68	68	69	60	70

Contribution to overall growth %

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Top 1 (%)	6	5	3	(1)	5	3	3	3
Top 3 (%)	13	12	12	2	11	9	7	8
Top 5 (%)	21	20	11	1	16	14	10	18
Top 10 (%)	34	31	18	(4)	27	25	18	22
Other (%)	66	69	82	104	73	75	82	78

Average O/S Per Customer

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
IGL	18,700	17,900	17,300	20,800	20,900	20,500	21,400
Family Welfare	8,200	7,400	5,000	2,900	7,600	7,200	4,800
Home Improvement	10,500	10,000	9,600	9,100	8,200	7,500	8,000
Emergency	600	600	600	700	600	600	600
Retail Finance	77,100	76,500	73,500	77,200	73,400	70,600	67,600
Average Ticket Size	15,900	15,100	14,200	17,300	17,800	16,800	17,300

Fig in Rs Cr

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	2634	3166
Networth	211	381	465	691	1437	2365	2778	3310
Change (%)	88	80	22	49	108	65	17	19
Total Borrowings	805	1291	2297	2668	3603	4886	6904	8975
Change (%)	107	60	78	16	35	36	41	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	9845	12497
Investments	0	0	0	0	0	0	0	0
Loans	677	1353	2475	3089	4896	6603	8940	11559
Change (%)	71	100	83	25	58	35	35	29
Fixed Assets	3	6	11	15	17	27	34	44
Other Assets	57	92	71	96	71	153	140	180
Cash Balances	325	280	255	364	130	574	731	713
Total Assets	1062	1731	2813	3564	5114	7357	9845	12497

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	1,605	2,022
Interest expended	69	128	207	324	354	417	564	750
Net Interest Income	73	140	250	377	506	802	1,041	1,272
Change (%)	57	92	78	51	34	58	30	22
Other Income	5	13	10	8	8	8	69	40
Change (%)	116	142	(26)	(23)	3	9	718	(41)
Total Net Income	78	154	259	385	518	867	1,110	1,312
Change (%)	60	96	69	48	35	67	28	18
Operating Expenses	45	71	115	160	203	294	400	462
Change (%)	27	57	63	39	27	45	36	16
Employee Expenses	29	43	71	105	130	186	257	292
Change (%)	30	49	63	48	25	43	38	13
Other Expenses	15	25	42	51	67	100	125	157
Pre-provisioning Profit	33	83	144	225	315	573	710	850
Change (%)	149	148	74	56	40	82	24	20
Provisions	6	7	14	109	(13)	75	144	131
Change (%)	31	19	105	675	(112)	(658)	93	(9)
PBT	28	76	130	117	328	498	566	719
Tax	9	27	47	41	116	176	153	187
Profit After Tax	19	49	84	75	213	322	413	532
Change (%)	119	167	69	(10)	182	51	28	29
Adjusted Profit After Tax	19	49	84	75	213	322	413	532
Change (%)	119	167	69	(10)	182	51	28	29

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	9665	12565
Off-Book AUM	810	1447	2539	3075	4975	7159	9665	12565
AUM Growth (%)	54.5	78.8	75.4	21.1	61.8	43.9	35.0	30.0
Borrowing Growth (%)	107.1	60.3	78.0	16.2	35.0	35.6	41.3	30.0
Loan/Borrowing Ratio	0.8	1.0	1.1	1.2	1.4	1.4	1.3	1.3
CRAR (%)	32	28	21	30	29	36	31	29
Tier 1 (%)	29	27	18	20	28	-	30	28
Tier 2 (%)	3	2	4	10	1	-	1	1
Debt/Equity (x)	3.8	3.4	4.9	3.9	2.5	2.1	2.5	2.7
Assets Quality Metrics								
Gross NPA (Rs)	0	0	2	3	98	40	68	88
Gross NPA (%)	0.0	0.0	0.1	0.1	2.0	0.6	0.7	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	1.7	1.2
Margin Metrics								
Yield On Advances (%)	21.3	23.8	22.9	25.0	21.4	19.8	19.1	18.2
Cost Of Funds (%)	9.4	10.8	11.1	13.0	11.3	9.8	9.6	9.4
Spread (%)	11.9	12.9	11.9	12.0	10.1	9.9	9.5	8.7
NIM on AUM (%)	10.9	12.4	12.5	13.4	12.6	13.2	12.4	11.4
Profitability & Efficiency Metrics								
Int. Expended/Int.Earned (%)	48.8	47.7	45.4	46.2	41.1	34.2	35.2	37.1
Other Income/NII (%)	7.5	9.5	3.9	2.0	2.3	8.1	6.6	3.2
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	37.2	40.5
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	23.2	22.2
Cost on Average Assets (%)	5.6	5.1	5.1	5.0	4.7	4.7	4.7	4.1
Provisions/PPP (%)	0.9	0.6	0.7	3.9	(0.3)	1.2	1.7	1.2
Tax Rate (%)	33.1	35.0	35.7	35.5	35.3	35.4	27.0	26.0
Valuation Ratio Metrics								
EPS (Rs)	3	7	11	9	17	22	29	37
Change (%)	0.6	0.9	0.7	(0.2)	0.9	0.4	0.3	0.3
ROAE (%)	11.4	16.7	19.8	13.0	20.0	16.9	16.1	17.5
ROAA (%)	2.3	3.5	3.7	2.4	4.9	5.2	4.8	4.8
Dividend Payout (%)	-	-	-	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-	-	-	-
Dividend Per Share	-	-	-	-	-	-	-	-
Book Value (Rs)	40	52	64	81	112	165	194	231
Change (%)	0.4	0.3	0.2	0.3	0.4	0.5	0.2	0.2
P/B (X)	-	-	-	-	-	3.0	4.2	3.5
P/E (X)	-	-	-	-	-	22.4	28.2	21.9

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	17.7	19.2	20.1	22.0	19.8	19.5	18.7	18.1
Interest expended	8.6	9.2	9.1	10.2	8.1	6.7	6.6	6.7
Net Interest Income	9.1	10.0	11.0	11.8	11.7	12.9	12.1	11.4
Non-Fund Based Income	0.7	1.0	0.4	0.2	0.3	1.0	0.8	0.4
Total Income	9.8	11.0	11.4	12.1	11.9	13.9	12.9	11.7
Total Operating Expenses	5.6	5.1	5.1	5.0	4.7	4.7	4.7	4.1
Employee Expenses	3.6	3.1	3.1	3.3	3.0	3.0	3.0	2.6
Other Expenses	2.0	1.9	1.9	1.7	1.7	1.7	1.7	1.5
Operating Profit	4.2	5.9	6.4	7.1	7.3	9.2	8.3	7.6
Provisions	0.7	0.5	0.6	3.4	(0.3)	1.2	1.7	1.2
Others	-	-	-	-	-	-	-	-
PBT	3.4	5.4	5.7	3.7	7.6	8.0	6.6	6.4
Tax	1.1	1.9	2.1	1.3	2.7	2.8	1.8	1.7
PAT/RoAA	2.3	3.5	3.7	2.4	4.9	5.2	4.8	4.8
Equity Multiplier (x)	5.0	4.7	5.4	5.5	4.1	3.3	3.3	3.7
ROAE	11.4	16.7	19.8	13.0	20.0	16.9	16.1	17.5

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