

Confident of being out of the woods from FY26

We met with the senior leadership team of CreditAccess Grameen (CREDAG), represented by Mr. Udaya Kumar Hebbar, MD, and Mr. Ganesh Narayanan, CEO, at its corporate office in Bangalore. We present below the key takeaways from our management meeting that covered the microfinance industry in general, the specific challenges in Karnataka, and CREDAG's strategic approach to customer acquisition, risk management, and future growth.

CREDAG acknowledged the recent challenges in the Karnataka microfinance sector but noted that police action has decreased significantly. Further, the company's employee centricity is aiding its strong recovery in Karnataka (post-ordinance). The company expects normalcy to be restored from 2QFY26 onwards and that its financials should be "clean" (from the ongoing credit cycle), except for the Karnataka slippages in 4QFY25, which might linger until Sep'26. The customer acquisition rate has increased from Dec'24 onwards, and CREDAG targets to acquire 100,000 customers per month (on average) over FY26. The company's focus is on field due diligence and knowing the customer, with a consistent lending approach even during challenging times, and it is focusing on controlling credit costs rather than prioritizing growth. According to the management, the overleveraging problem has been largely addressed, and it expects very minimal impact on its loan growth or asset quality from the (potential) implementation of MFIN guardrails 2.0 from Apr'25 onwards.

Navigating challenges and charting future growth

- While challenges persist, CreditAccess is demonstrating resilience and adaptability in navigating regional complexities and broader industry trends. Given that Karnataka forms almost one-third of CREDAG's GLP and in the context of the recent disruptions in Karnataka (pre- and post-ordinance), CREDAG had put out a mid-quarter business update.
- Initially, the delinquencies rose due to borrower confusion and limitations on door-to-door collections. Disruptions in Karnataka caused a temporary dip in asset quality, but recovery efforts are in place. The ordinance applies to unregulated lenders and does not affect RBI-regulated entities like CREDAG. The situation is gradually stabilizing post-ordinance release, with improved borrower communication and the resumption of door-to-door collections.
- Ex-Karnataka, the asset quality is stabilizing with declining PAR accretion in most of the states. Collection efficiency (CE; excl. **Karnataka**) was >99.5% in Feb'25. Karnataka's CE dipped to 95.1% (early Feb'25) from 99.4% (in Dec'24) but improved to 98% by the end of Feb'25.

Overcoming headwinds in Karnataka

- Karnataka's microfinance sector has earlier encountered notable difficulties, such as employee reluctance to go out for door collections and customers exploiting regulatory loopholes. However, after the ordinance, the police authorities have reduced strictness on the ground, and CREDAG's emphasis on its employees is proving crucial for recovery in Karnataka.
- Employee centricity is the primary reason why CREDAG has been able to come back strongly in Karnataka, with employees remaining strong and not leaving. CREDAG has a field-first approach, with every other function in the company providing a support system to the front-line employees.
- CREDAG anticipates a return to more stable figures by the second quarter of the year, although the stress (slippages) seen in the Karnataka portfolio in 4QFY25 may extend until Sep'25 when they can be written off. Despite the challenges, CREDAG's commitment to its employee field force and adaptive strategies are helping it to weather the disruptions in Karnataka much better than its MFI peers.

CreditAccess Grameen



Udaya Kumar, MD

Udaya is the Managing Director at CREDAG and a veteran in the microfinance industry. He has been the architect behind the transformational journey of building CREDAG. Prior to joining CREDAG, he held various leadership positions at Barclays Bank PLC, Corporation Bank, and ICICI Bank.



Ganesh Narayanan, CEO

Mr. Ganesh Narayanan joined CREDAG in Jan'20 as the Chief Business Officer and has been instrumental in scaling up the MFI business and setting up Retail Finance. He was elevated as CEO in Aug'23. He was earlier associated with ICICI Bank, Fullerton, and YES Bank.

Customer acquisition and market potential

- CREDAG is committed to expanding its customer base, reflected in its ambitious customer acquisition goals. Recent data shows growth in the customer acquisition run rate since Dec'24 onwards and CREDAG targets to add ~100,000 new customers each month (on an average) in FY26.
- A significant portion of these new customers are new to credit (NTC), highlighting the company's reach into untapped market segments. With a substantial number of households that become eligible for MFI loans every year, CREDAG is well-positioned to capitalize on the market potential and extend its services to a broader audience. Overall the new-to-credit (NTC) customers are ~42% for CREDAG, while it achieves 35% NTC customers even while operating in practically every village in Karnataka.

Prudent risk management and operational excellence

- CREDAG is placing a strong emphasis on careful risk management and operational efficiency. The company stresses the importance of conducting thorough field due diligence and knowing the customer (KYC) before disbursing loans. The company is focused on a consistent lending strategy, even when facing difficulties.
- The company is committed to mitigating risks and promoting sustainable growth by carefully evaluating borrowers and maintaining close oversight of its lending operations. The company is focused on controlling credit costs rather than prioritizing growth. Credit costs for FY25 could be slightly higher than its guidance of 6.7-6.9% primarily because of slippages in the Karnataka portfolio.

Limited impact on loan growth or asset quality from the implementation of MFIN guardrails 2.0

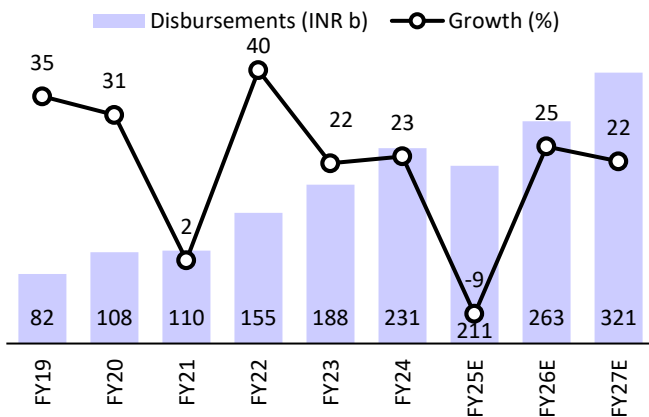
- CREDAG does not foresee any significant impact on its loan growth or asset quality from the implementation of MFIN guardrails 2.0 from Apr'25. It is not sanctioning or disbursing loans to customers who have four or more MFI loans or to customers who have a total loan outstanding (including non-MFI unsecured loans) of >INR200K.
- The company has ~23.6% borrowers who have >= CA Grameen+ 3 lenders. Of this, ~19.8% (~84% of its customers who have four or more loans) are repaying promptly. About 3.8% (with the remaining ~16% of customers having four or more loans) are in PAR 15+ as of Dec'24. Among these customers, 7.2% (~30% of such customers) have a >INR200K loan exposure.
- Since ~84% of borrowers with >=CA Grameen+ 3 lenders continue to repay promptly, their leverage/multiple loans will gradually reduce, making them eligible for future loans. CREDAG had shared earlier that it expects to retain >80% of its borrowers who have four or five loans.

Valuation and view: CREDAG could potentially be among the early ones to emerge out of this MFI credit cycle

- At the industry level, some procedural lapses were identified, and the experience will hopefully make the MFI lenders better at assessing their customers. Field due diligence has to be strong, and a little bit of patience while disbursing money can protect the industry significantly.
- Looking ahead, CREDAG is focused on regaining momentum and achieving sustainable growth. The company is determined to overcome recent sectoral challenges and leverage its strengths to achieve its strategic objectives.
- By prioritizing controlling credit costs and capitalizing on market opportunities, the company will aim to reinforce its position as a leading microfinance provider. The company will continue to prioritise knowing its customer base to minimize risk and ensure the long-term viability of its business model.
- Management shared that according to its assessment of the evolving situation and its customer base, the overleveraging problem has been largely addressed for CREDAG and that one can expect the company to start pivoting towards growth from FY26 onwards.
- With a strong capital position (Tier-1 of ~25%), it is well-equipped to navigate the near-term disruption in the MFI sector and will embark on a healthy loan growth trajectory once there is higher confidence in the reversal of this delinquency trend. **Reiterate BUY with a TP of INR1,170 (premised on 1.8x Mar'27E P/BV).**

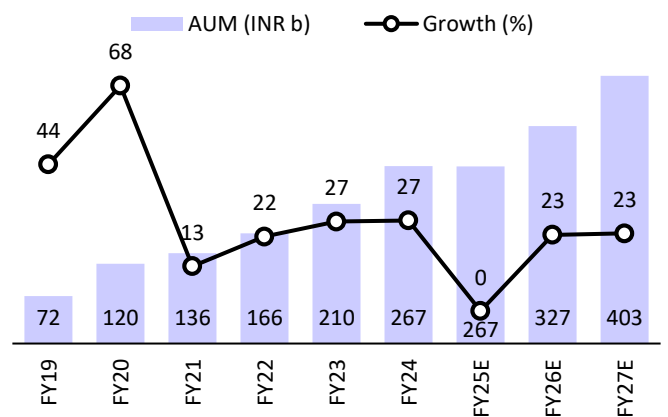
Story in charts

Exhibit 1: Disbursements CAGR of ~12% over FY24-27...



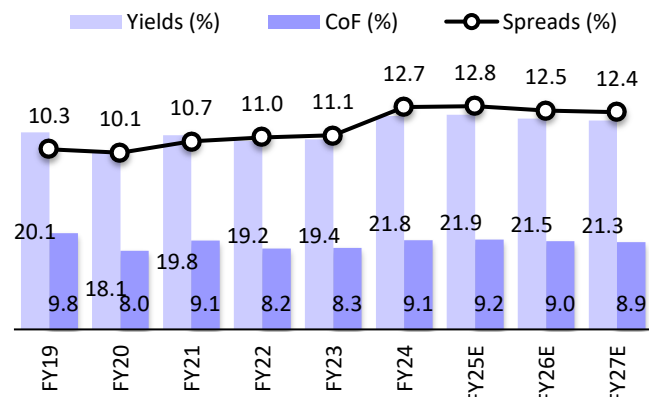
Sources: MOFSL, Company reports

Exhibit 2: ...leading to ~15% AUM CAGR over the same period



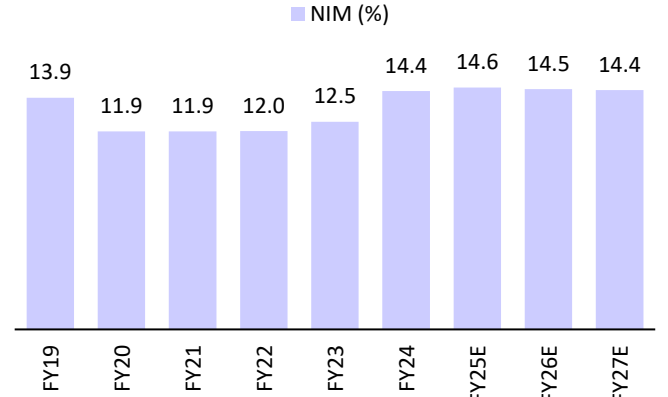
Sources: MOFSL, Company reports

Exhibit 3: Expect compression in spreads due to a dip in yields



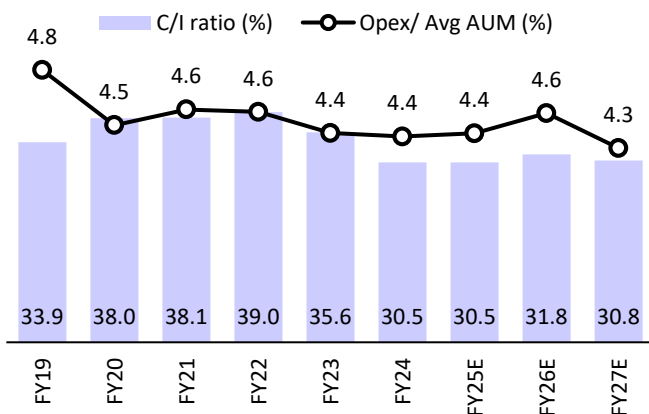
Sources: MOFSL, company reports

Exhibit 4: NIM to remain broadly stable in FY26/FY27



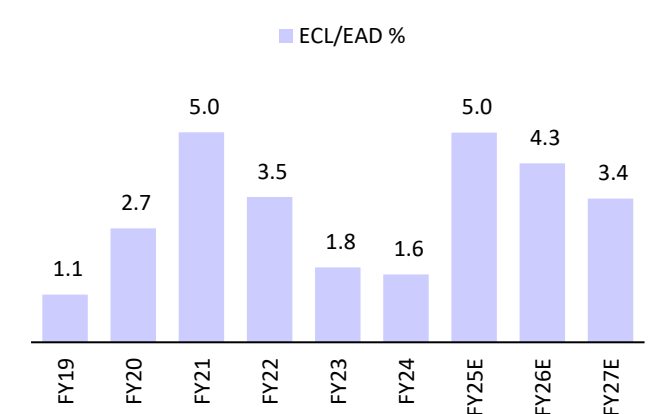
Sources: MOFSL, company reports

Exhibit 5: Opex/avg. AUM to remain elevated in FY26



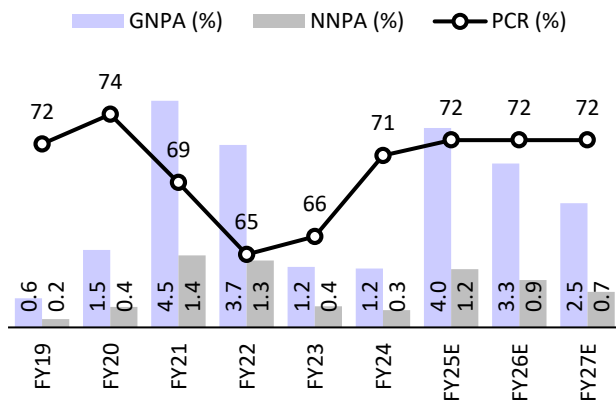
Sources: MOFSL, company reports

Exhibit 6: ECL/EAD to peak in FY25 and decline in FY26/FY27



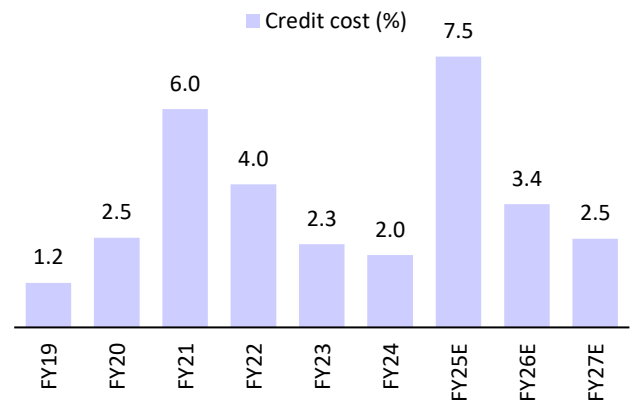
Sources: MOFSL, company reports

Exhibit 7: Asset quality to gradually improve in FY26/FY27



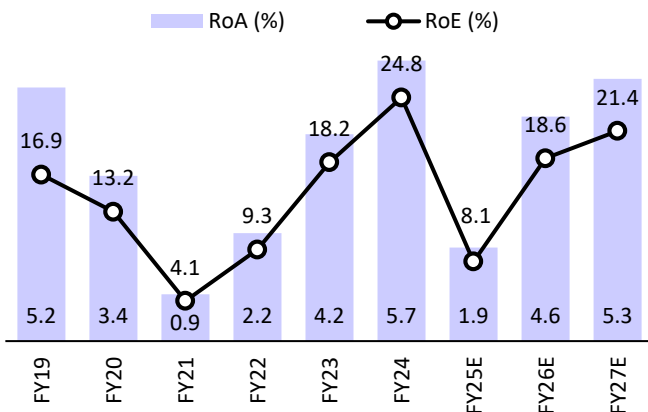
Sources: MOFSL, company reports

Exhibit 8: Expect credit costs of ~7.5% in FY25



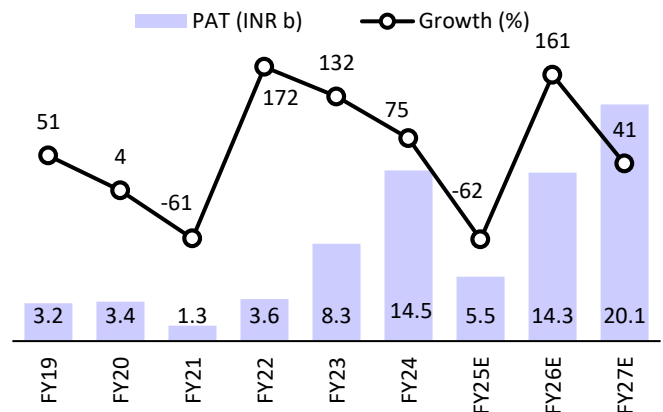
Sources: MOFSL, company reports

Exhibit 9: RoA/RoE at ~5.3%/21.0% in FY27



Sources: MOFSL, company reports

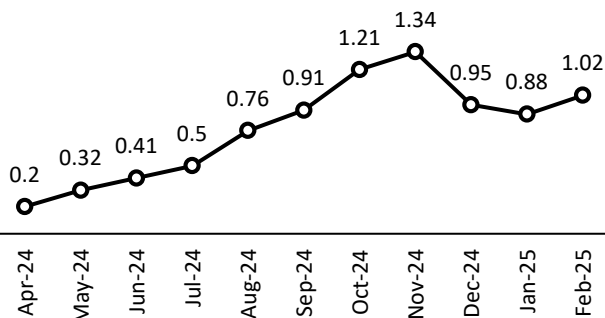
Exhibit 10: Expect PAT CAGR of ~12% over FY24-FY27



Sources: MOFSL, company reports

Exhibit 11: Monthly PAR 15+ Accretion/AUM rate for all states

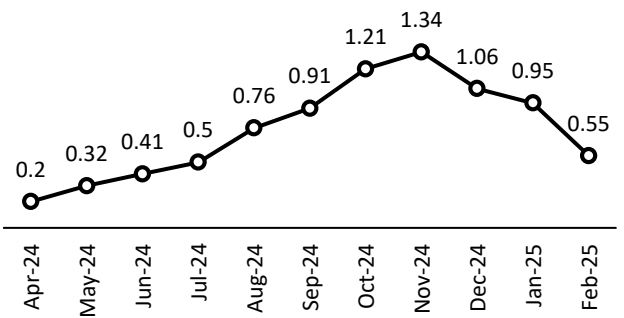
Monthly PAR 15+ Accretion/AUM Rate (%)
—○ All states (incl. Karnataka)



Sources: MOFSL, company reports

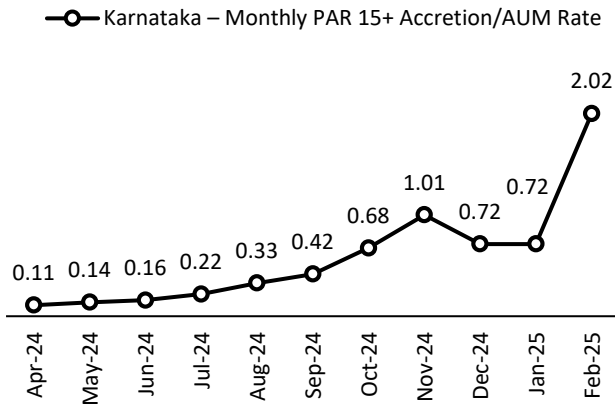
Exhibit 12: Monthly PAR 15+ Accretion/AUM rate for all states (ex-Karnataka)

Monthly PAR 15+ Accretion/AUM Rate (%)
—○ All states (excl. Karnataka)



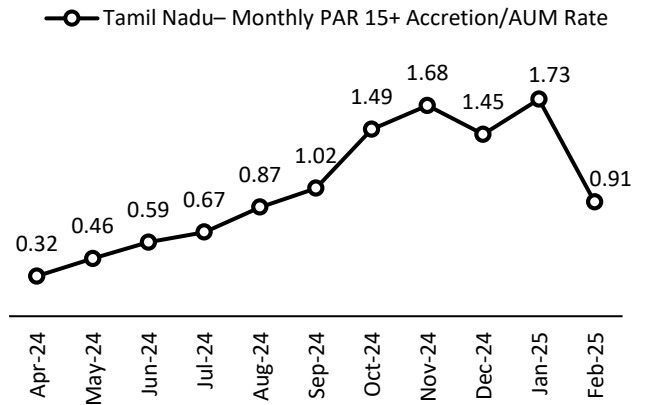
Sources: MOFSL, company reports

Exhibit 13: PAR accretion increased in Feb'25 in Karnataka



Sources: MOFSL, company reports

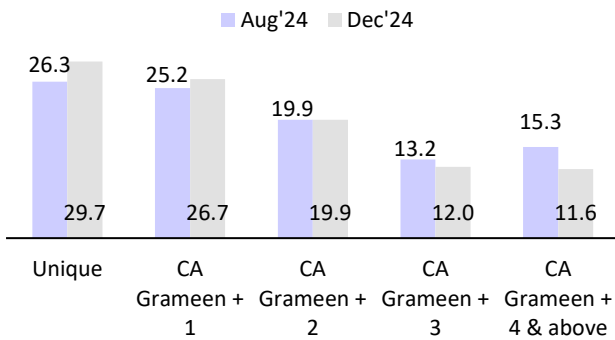
Exhibit 14: PAR accretion declined in Feb'25 in Tamil Nadu



Sources: MOFSL, company reports

Exhibit 15: ~11.6% of borrowers have loans from CREDAG +>=4 lenders as of Dec'24

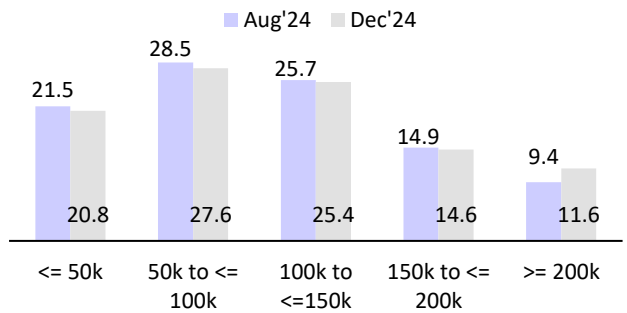
Lender Overlap % (Basis No. of borrowers)



Sources: MOFSL, company reports

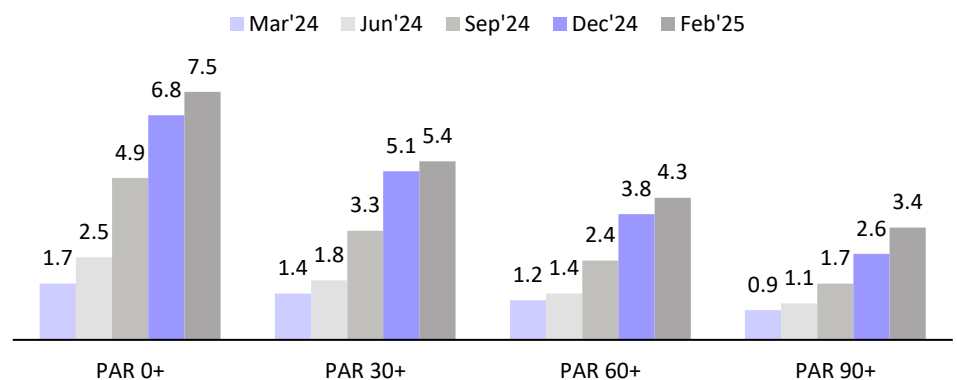
Exhibit 16: ~11.6% of borrowers have total MFI indebtedness of more than INR200k as of Dec'24

Borrowers % (basis total MFI indebtedness)



Sources: MOFSL, company reports

Exhibit 17: Trends in PAR rates (%)



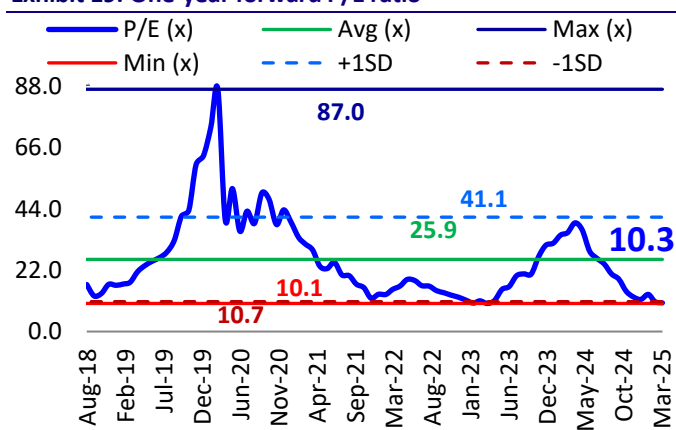
Source: MOFSL, Company

Exhibit 18: We cut our FY25/FY26/FY27 EPS estimates by ~7%/1%/3% to factor in lower AUM growth and credit costs

INR B	Old Est.			New Est.			% change		
	FY25	FY26	FY27	FY25	FY26	FY27	FY25	FY26	FY27
NII	36.2	41.0	49.7	36.5	39.9	48.3	0.8	-2.7	-2.8
Other Income	2.2	2.6	2.8	2.2	2.6	2.8	0.0	0.0	0.0
Total Income	38.4	43.5	52.5	38.6	42.4	51.1	0.7	-2.5	-2.6
Operating Expenses	11.8	13.5	15.8	11.8	13.5	15.8	0.0	0.0	0.0
Operating Profits	26.6	30.0	36.8	26.9	28.9	35.4	1.0	-3.7	-3.7
Provisions	18.7	10.8	9.1	19.5	9.8	8.5	4.4	-8.7	-6.3
PBT	7.9	19.3	27.6	7.4	19.1	26.8	-7.0	-0.8	-2.9
Tax	2.0	4.9	7.0	1.9	4.8	6.8	-7.0	-0.8	-2.9
PAT	5.9	14.4	20.6	5.5	14.3	20.1	-7.0	-0.8	-2.9
AUM	283	344	423	267	327	403			
Borrowings	226	263	319	211	249	302			
RoA	2.0	4.4	5.3	1.9	4.6	5.3			
RoE	8.7	18.6	21.8	8.1	18.6	21.4			

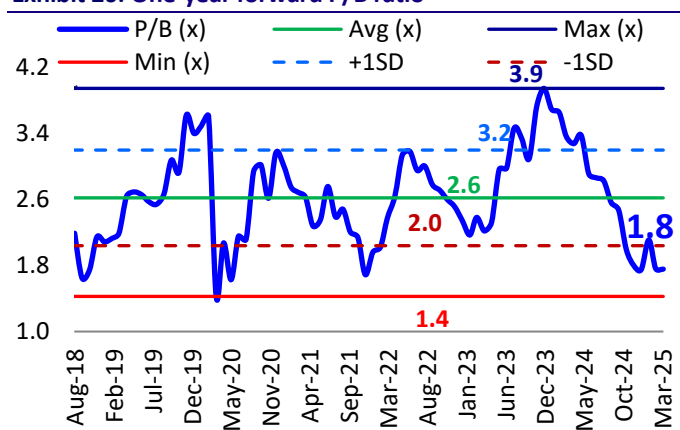
Sources: MOFSL, Company

Exhibit 19: One-year forward P/E ratio



Sources: MOFSL, company reports

Exhibit 20: One-year forward P/B ratio



Sources: MOFSL, company reports

Financials and valuations

Income Statement									(INR M)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	12,183	16,334	22,900	25,673	33,271	49,001	56,123	60,555	72,835
Interest Expended	4,168	5,783	9,287	9,841	12,129	17,324	19,629	20,691	24,521
Net Interest Income	8,016	10,551	13,613	15,832	21,143	31,677	36,494	39,864	48,314
Change (%)	58.4	31.6	29.0	16.3	33.5	49.8	15.2	9.2	21.2
Other Income	650	721	1,760	1,825	2,237	2,725	2,152	2,580	2,826
Net Income	8,666	11,271	15,373	17,657	23,379	34,402	38,646	42,444	51,140
Change (%)	67.3	30.1	36.4	14.9	32.4	47.1	12.3	9.8	20.5
Operating Expenses	2,940	4,283	5,856	6,885	8,315	10,493	11,785	13,517	15,755
Operating Income	5,726	6,989	9,517	10,772	15,064	23,910	26,860	28,927	35,385
Change (%)	81.9	22.1	36.2	13.2	39.8	58.7	12.3	7.7	22.3
Provisions and W/Offs	749	2,373	7,714	5,968	4,010	4,518	19,491	9,834	8,539
PBT	4,977	4,616	1,803	4,805	11,054	19,392	7,369	19,093	26,846
Tax	1,760	1,261	490	1,237	2,794	4,933	1,901	4,831	6,792
Tax Rate (%)	35.4	27.3	27.2	25.7	25.3	25.4	25.8	25.3	25.3
PAT	3,218	3,355	1,313	3,568	8,261	14,459	5,468	14,263	20,054
Change (%)	51.4	4.3	-60.9	171.7	131.5	75.0	-62.2	160.8	40.6
Proposed Dividend (Incl Tax)	0	0	0	0	0	1,594	0	0	0

Balance Sheet									(INR M)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	1,436	1,440	1,556	1,559	1,589	1,594	1,594	1,594	1,594
Reserves & Surplus	22,215	25,902	35,360	38,218	49,481	64,106	67,980	82,243	1,02,297
Net Worth	23,651	27,342	36,916	39,777	51,070	65,700	69,574	83,837	1,03,891
Borrowings	48,666	95,397	1,09,413	1,29,207	1,63,123	2,18,410	2,10,638	2,49,165	3,01,872
Change (%)	34.3	96.0	14.7	18.1	26.2	33.9	-3.6	18.3	21.2
Other liabilities	1,257	3,163	4,264	4,964	4,389	4,352	5,175	6,157	7,331
Total Liabilities	73,574	1,25,902	1,50,592	1,73,948	2,18,581	2,88,462	2,85,386	3,39,159	4,13,094
Cash and bank balances	6,156	7,176	24,844	17,614	14,364	13,139	10,688	12,130	14,813
Loans and Advances	66,028	1,10,989	1,17,205	1,47,653	1,90,433	2,51,050	2,50,163	3,00,561	3,69,488
Change (%)	34.9	68.1	5.6	26.0	29.0	31.8	-0.4	20.1	22.9
Fixed Assets	187	5,793	5,734	5,739	968	1,214	1,456	1,747	2,097
Investments	2	456	5	5	4,545	14,389	13,670	14,353	15,071
Intangible Assets		0	0	4,673	5,061	4,923	4,923	4,923	4,923
Other Assets	1,200	1,488	2,804	2,937	3,208	3,747	4,486	5,445	6,703
Total Assets	73,572	1,25,447	1,50,587	1,73,942	2,18,581	2,88,462	2,85,386	3,39,159	4,13,094

E: MOFSL Estimates

Financials and valuations

Ratios	(%)								
AUM and Disbursements (INR m)	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
AUM	71,590	1,19,960	1,35,870	1,65,990	2,10,320	2,67,140	2,66,619	3,27,138	4,02,827
YoY growth (%)	43.9	67.6	13.3	22.2	26.7	27.0	-0.2	22.7	23.1
Disbursements	82,212	1,08,040	1,10,104	1,54,670	1,88,090	2,31,340	2,10,519	2,63,149	3,21,042
YoY growth (%)	35.2	31.4	1.9	40.5	21.6	23.0	-9.0	25.0	22.0

Ratios	(%)								
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Spreads Analysis (%)									
Yield on Portfolio	20.1	18.1	19.8	19.2	19.4	21.8	21.9	21.5	21.3
Cost of Borrowings	9.8	8.0	9.1	8.2	8.3	9.1	9.2	9.0	8.9
Interest Spread	10.3	10.1	10.7	11.0	11.1	12.7	12.8	12.5	12.4
Net Interest Margin	13.9	11.9	11.9	12.0	12.5	14.4	14.6	14.5	14.4
Profitability Ratios (%)									
RoE	16.9	13.2	4.1	9.3	18.2	24.8	8.1	18.6	21.4
RoA (on balance sheet)	5.2	3.4	0.9	2.2	4.2	5.7	1.9	4.6	5.3
Debt: Equity (x)	2.1	3.5	3.0	3.2	3.2	3.3	3.0	3.0	2.9
Leverage (x)	3.3	3.9	4.3	4.2	4.3	4.4	4.1	4.0	4.0
Efficiency Ratios (%)									
Int. Expended/Int.Earned	34.2	35.4	40.6	38.3	36.5	35.4	35.0	34.2	33.7
Op. Exps./Net Income	33.9	38.0	38.1	39.0	35.6	30.5	30.5	31.8	30.8
Empl. Cost/Op. Exps.	63.3	61.2	64.9	63.6	62.0	63.8	63.6	63.8	63.5
Other Income/Net Income	7.5	6.4	11.5	10.3	9.6	7.9	5.6	6.1	5.5
Asset quality									
GNPA	385	1,738	5,487	5,587	2,364	3,026	10,508	10,300	9,519
NNPA	109	458	1,686	1,974	808	877	2,942	2,884	2,665
GNPA %	0.6	1.5	4.5	3.7	1.2	1.2	4.0	3.3	2.5
NNPA %	0.2	0.4	1.4	1.3	0.4	0.3	1.2	0.9	0.7
PCR %	71.7	73.6	69.3	64.7	65.8	71.0	72.0	72.0	72.0
Valuation	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Book Value (INR)	165	190	237	255	321	412	437	526	652
BV Growth (%)	47.2	15.3	25.0	7.5	25.9	28.3	5.9	20.5	23.9
Price-BV (x)		4.9	3.9	3.6	2.9	2.2	2.1	1.8	1.4
EPS (INR)	22.4	23.3	8.4	22.9	52.0	90.7	34.3	89.5	125.8
EPS Growth (%)	35.5	3.9	-63.8	171.2	127.1	74.5	-62.2	160.8	40.6
Price-Earnings (x)		39.7	109.5	40.4	17.8	10.2	26.9	10.3	7.3
Dividend per share		0.0	0.0	0.0	0.0	10.0	0.0	0.0	0.0
Dividend Yield (%)		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

E: MOFSL Estimates

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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