

# CRISIL IER

## Independent Equity Research

Enhancing investment decisions



### **Satin Creditcare Network Ltd**

Q2FY17 Results Update

## Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

<b>CRISIL Fundamental Grade</b>	<b>Assessment</b>	<b>CRISIL Valuation Grade</b>	<b>Assessment</b>
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

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# Satin Creditcare Network Ltd

January 11, 2017

## Strong business growth in Q2; disbursements a key monitorable post demonetisation

**Fundamental Grade: 3/5 (Good fundamentals)**      **Valuation Grade: 5/5 (CMP has strong upside)**  
**Industry: Microfinance**      **Fair Value: ₹518**      **CMP: ₹340**

Satin Creditcare Network Ltd (Satin) reported strong business growth in Q2FY17 on a standalone basis. Its gross loan portfolio (GLP) increased 74% y-o-y and 14.4% q-o-q to ₹37.5 bn. We expect GLP growth to moderate in FY17, as demonetisation impacts fresh disbursements. Financial cost\* saw 36 bps q-o-q and 125 bps y-o-y-cum moderation to 11.55% in Q2FY17, owing to higher share of securitisation in the liability mix. Lower finance cost and higher loan book drove operating income up 78.1% y-o-y and 8.2% q-o-q to ₹1.1 bn. Higher operating income and a slight moderation in operating cost led to robust PAT growth of 79.2% y-o-y and 5.9% q-o-q. GNPA remained stable at 0.2%. Satin's strong presence in the underpenetrated states improved liquidity which, along with a capable management, augur well in the long term. We maintain our fundamental grade of **3/5**.

### Demonetisation disrupts operations; disbursements a key monitorable in the near term

The collection rate of MFIs dropped significantly in initial weeks after demonetisation, owing to unavailability of cash among borrowers. Also, restrictions on current account withdrawals limited fresh disbursements. Though Satin's collections reached 70-75% in the election-bound state of UP towards the end of December, the ~33%<sup>^</sup> loan book exposure in UP is a key risk factor. Under the base case, as the cash shortage eases, we expect the collection rate to come back to the normal level and disbursements to regain momentum towards the end of FY17. However, persistent stagnation in collections could increase credit cost. Satin's collections and disbursements are key monitorables in the near term.

### Demonetisation to slow down GLP growth in the short term

Robust GLP growth in Q2FY17 was driven by strong increase in the customer base and a marginal rise in the average ticket size. The customer base increased 59% y-o-y and 13% q-o-q to 2.3 mn. A strong driver was increase in the number of loan officers - 86% y-o-y and 14% q-o-q to 3,614. The average ticket size increased 13% y-o-y and 4% q-o-q to ~₹26,000 per loan. While H1 growth has been robust, we expect demonetisation to slow down GLP growth to 12% y-o-y in FY17. Over the long term, we believe Satin's growth prospects are intact and expect GLP growth to improve to 36% y-o-y in FY18.

### NIM expansion driven by lower financial cost; expect further improvement

Net interest income (excluding other income) grew in line with the loan book, at 76% y-o-y and 7% q-o-q. Net interest margin (NIM) expanded 67 bps y-o-y and 10 bps q-o-q to 12.2% owing to moderation in financial cost by 125 bps y-o-y and 36 bps q-o-q. We expect NIM to expand further, as financial cost moderates with a higher share of securitisation in overall debt funding.

### We lower our earnings estimates, revise P/B multiple to 2.5x

We lower our GLP estimate 21%/26% for FY17E/FY18E, respectively, and lower our fair value P/B multiple to 2.5x from 2.8x on FY18E adjusted book. As a result, our fair value estimate is lowered to ₹518 per share. At the CMP of ₹340, our valuation grade is **5/5**.

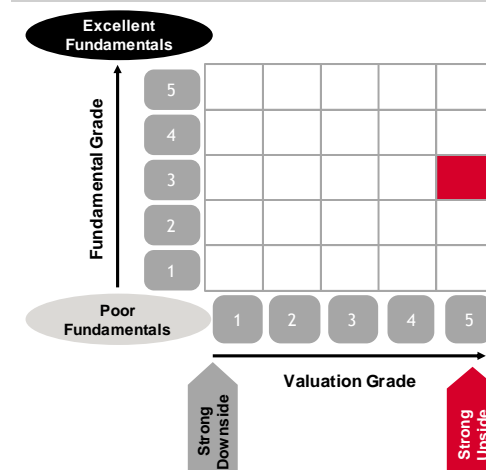
## KEY FORECASTS (STANDALONE)

₹ mn	FY14	FY15E	FY16#	FY17E	FY18E
Total operating income	856	1,467	2,687	3,658	4,779
Pre-provision profit	332	581	1,112	1,494	1,975
Adjusted net profit	156	317	579	830	1,068
Adj. EPS (₹)	6.9	12.5	18.4	22.4	28.8
Adj. BV per share (₹)	58.7	71.6	96.5	185.7	214.3
P/E (x)	49.5	27.2	18.5	15.2	11.8
P/ABV (x)	5.8	4.7	3.5	1.8	1.6
Adj. ROE (%)	12.1%	20.1%	23.7%	16.7%	14.4%
Adj. ROA (%)	1.4%	1.6%	1.7%	1.8%	1.9%
Credit cost (as % of loan book)	1.6%	1.1%	0.6%	1.7%	1.8%
Capital adequacy ratio	15.3%	15.7%	16.8%	~32%	~27%

\*Financial cost = Interest expense to avg. GLP Adj. ROA = Adj. PAT/ (total assets + off book assets); <sup>^</sup>As per con-call dated Nov 23, 2016

Source: Company, CRISIL Research estimates;

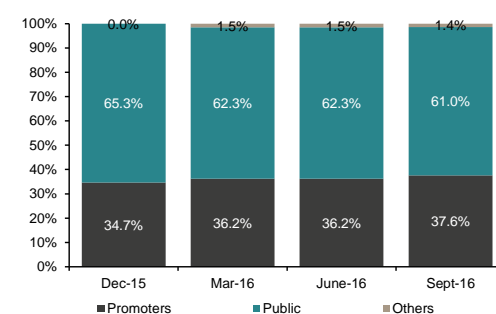
## CFV MATRIX



## KEY STOCK STATISTICS

NIFTY/SENSEX	26900/8289
NSE/BSE ticker	SATIN/SATIN
Face value (₹ per share)	10
Shares outstanding (mn)	37.1
Market cap (₹ mn)/(US\$ mn)	11077/162
52-week range (₹)/(H/L)	717/245
Beta	1.3
Free float (%)	67%
Avg daily volumes (30-days)	147,323
Avg daily value (30-days) (₹ mn)	53

## SHAREHOLDING PATTERN



## PERFORMANCE VIS-À-VIS MARKET

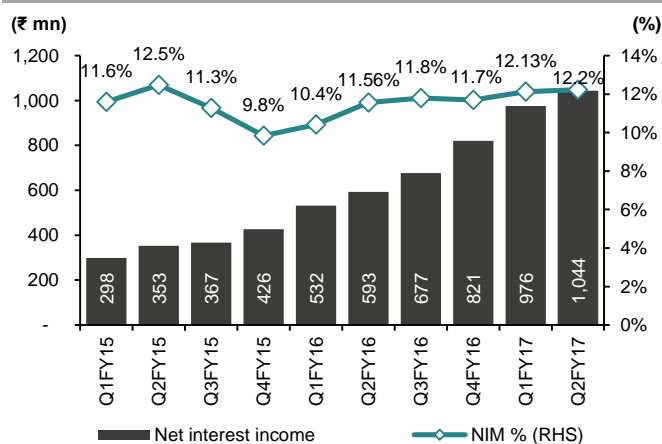
	Returns			
	1-m	3-m	6-m	12-m
Satin	-12%	-39%	-32%	-11%
CNX 500	1%	-5%	0%	11%

## Q2FY17 results summary

Standalone (₹ mn)	Q2FY17	Q1FY17	Q2FY16	q-o-q (%)	y-o-y (%)	H1FY17	H1FY16	y-o-y
Interest Income	2,059	1,951	1,261	5.5	63.2	4,009	2,397	67.3
Interest Expense	1,015	975	668	4.1	51.9	1,989	1,271	56.5
<b>Net Interest Income</b>	<b>1,044</b>	<b>976</b>	<b>593</b>	<b>7.0</b>	<b>75.9</b>	<b>2,020</b>	<b>1,126</b>	<b>79.4</b>
Other Income	31	17	10	80.5	214.2	48	19	150.4
<b>Total Operating Income</b>	<b>1,075</b>	<b>993</b>	<b>603</b>	<b>8.2</b>	<b>78.1</b>	<b>2,067</b>	<b>1,145</b>	<b>80.6</b>
Operating Expenses	587	566	356	3.9	64.8	1,153	703	64.1
Staff Costs	381	301	170	26.7	123.7	681	327	108.6
Other Operating Expenses	207	265	186	(22.1)	11.0	472	376	25.4
<i>Cost to income</i>	<i>55.7%</i>	<i>58.0%</i>	<i>60.1%</i>	<i>(224) bps</i>	<i>(431) bps</i>	<i>56.8%</i>	<i>62.3%</i>	<i>(550) bps</i>
<b>Pre-provision profit (PPP)</b>	<b>487</b>	<b>427</b>	<b>247</b>	<b>14.0</b>	<b>97.4</b>	<b>914</b>	<b>442</b>	<b>106.8</b>
Provisions and write offs	83	53	20	56.1	311.6	135	30	359.1
<b>Profit before depreciation and tax</b>	<b>405</b>	<b>374</b>	<b>227</b>	<b>8.1</b>	<b>78.4</b>	<b>779</b>	<b>413</b>	<b>88.8</b>
Depreciation On Fixed Assets	11	10	6	14.8	98.2	22	11	103.5
<b>PBT</b>	<b>393</b>	<b>364</b>	<b>221</b>	<b>7.9</b>	<b>77.9</b>	<b>757</b>	<b>402</b>	<b>88.4</b>
Provision for tax	133	118	76	12.1	75.4	251	136	84.6
Tax rate	33.8%	32.5%	34.2%	3.9	(1.4)	33.2%	33.8%	(2.0)
<b>Net Profit</b>	<b>260</b>	<b>246</b>	<b>145</b>	<b>5.9</b>	<b>79.2</b>	<b>506</b>	<b>266</b>	<b>90.4</b>
<b>EPS – Diluted (₹)</b>	<b>8.1</b>	<b>7.7</b>	<b>4.6</b>	<b>4.7</b>	<b>76.8</b>	<b>15.8</b>	<b>8.9</b>	<b>78.7</b>

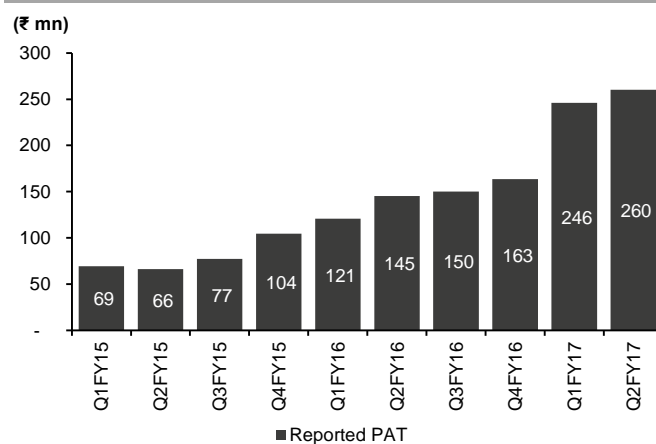
Source: Company, CRISIL Research

### NIM increased 10 bps q-o-q



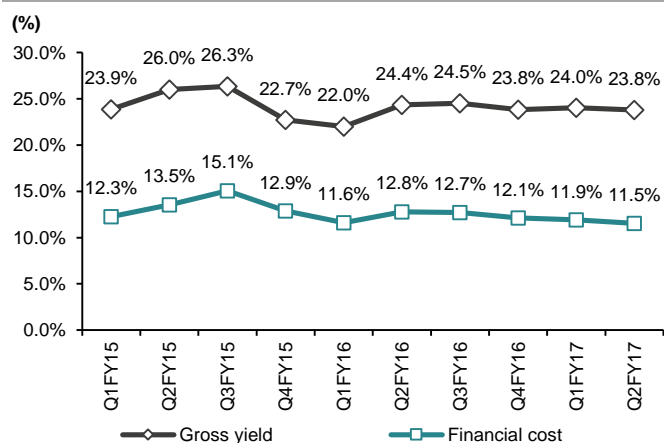
Source: Company, CRISIL Research

### PAT up 79% y-o-y driven by GLP growth



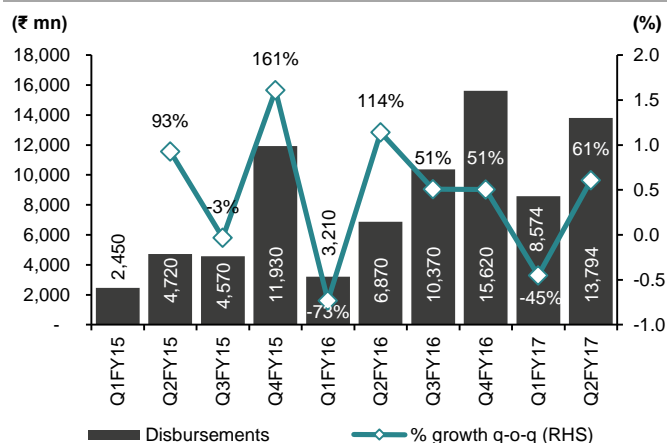
Source: Company, CRISIL Research

### Financial cost moderated 125 bps y-o-y



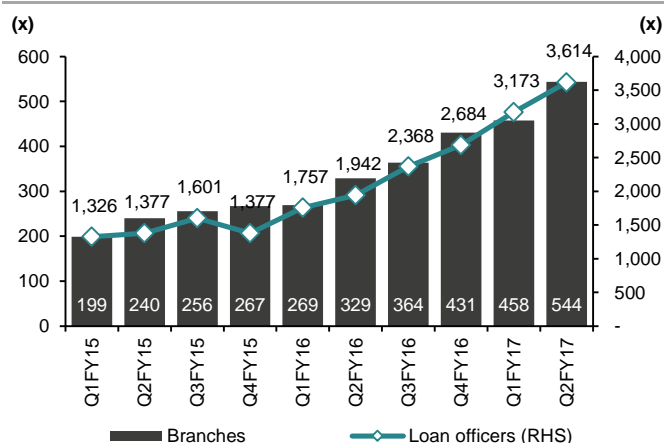
Source: Company, CRISIL Research

### Disbursements increased 61% q-o-q in Q2FY17



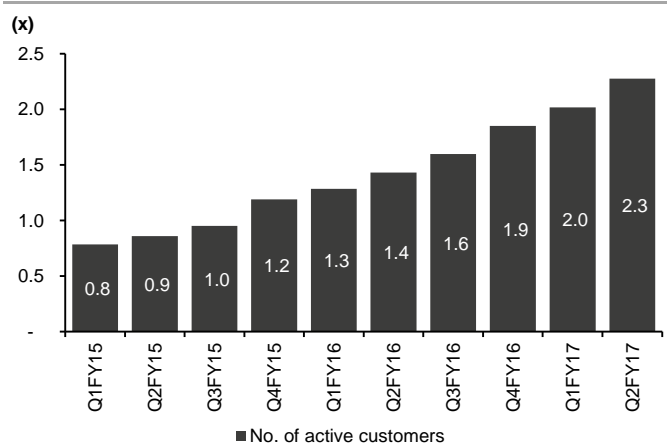
Source: Company, CRISIL Research

### Continuing to expand its reach



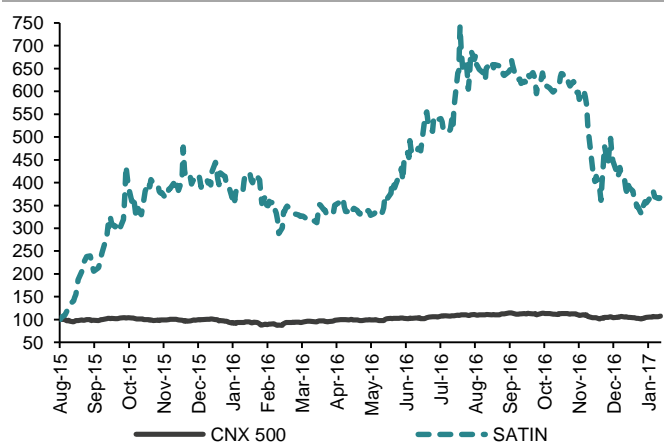
Source: Company, CRISIL Research

### Active borrowers increase to 2.3 mn



Source: Company, CRISIL Research

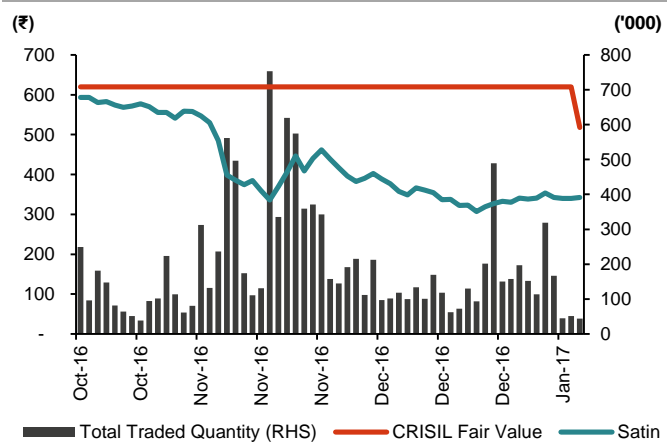
### Share price movement



-indexed to 100

Source: NSE, CRISIL Research

### Fair value movement since initiation



Source: NSE, CRISIL Research

## Revised estimates

Particulars	Unit	FY17E			FY18E		
		Old	New	% change	Old	New	% change
GLP	(₹ bn)	46.6	36.6	-21%	67.5	49.8	-26%
Disbursements	(₹ bn)	51.7	43.3	-16%	75.0	60.5	-19%
Total operating income	(₹ mn)	4,150	3,658	-12%	6,222	4,779	-23%
Pre-provision profit	%	1,448	1,239	-14%	3,176	1,975	-38%
PAT	(₹ mn)	970	830	-14%	1,434	1,068	-26%
Adj. EPS	₹	26.1	22.4	-14%	38.7	28.8	-26%
Adj. book value per share	%	189.0	185.7	-2%	228.0	214.3	-6%

## Reasons for change in estimates

Line item	FY17E and FY18E
Disbursements	Disbursements are expected to be lower on account of demonetisation
GLP	Lowered because of lower disbursement expectations
PAT	Lowered because of reduction in operating income following lowered GLP estimates and higher credit cost

## Valuation

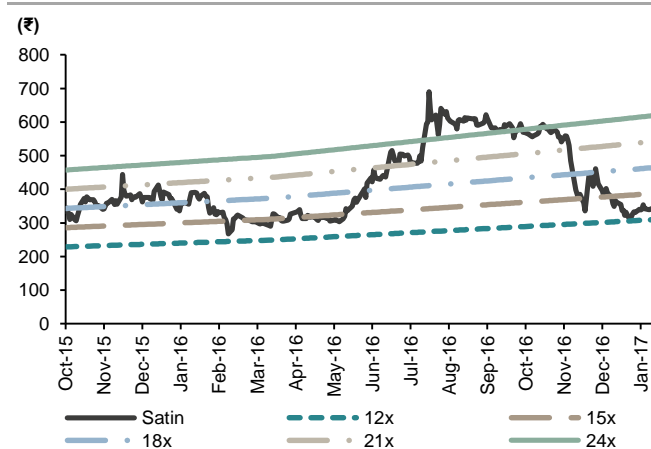
**Grade: 5/5**

Given the near-term impact of demonetisation, we lower our FY17E and FY18E earnings estimates. We lower our fair value P/B multiple to 2.5x from 2.8x on FY18E adjusted book owing to increased short- to medium-term uncertainty and risk perception on the microfinance industry. As a result, our fair value estimate is lowered to ₹518 per share from ₹620. At the current market price of ₹340, our valuation grade is **5/5**.

### Calculation of fair value<sup>1</sup> per share

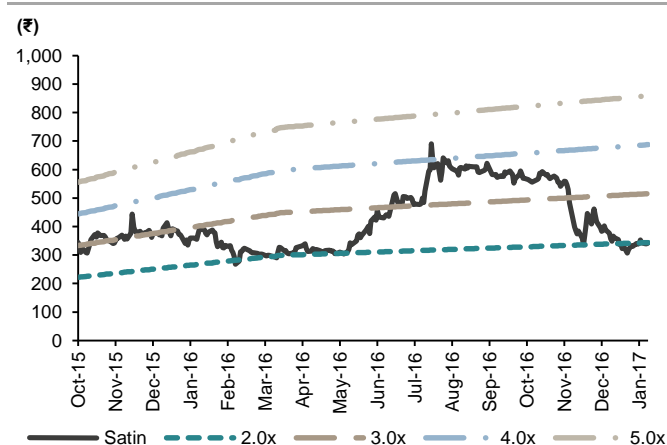
Particulars	Amount (₹)
FY18 net worth as per annexure	7,961
(Less: Consideration paid for acquiring group company Taraashna Services Pvt Ltd [TSPL] via share swap)	(498)
Adj FY18 net worth (A)	<b>7,465</b>
No of shares O/s as of FY17 (Excluding 1.1 mn shares issued to shareholders of TSPL) (B)	36.0
<b>Adj. book value per share (A/B) = (C)</b>	<b>207</b>
Multiple used (D)	<b>2.5x</b>
<b>Fair value per share (C*D)</b>	<b>518</b>

#### One-year forward P/E band



Source: NSE, CRISIL Research

#### One-year forward P/B movement



Source: NSE, CRISIL Research

### CRISIL IER reports released on Satin Creditcare Network Ltd

Date	Nature of report	Fundamental		Valuation		CMP (on the date of report)
		grade	Fair value	grade		
19-Jul-16	Initiating coverage	3/5	₹620	3/5		₹593
11-Jan-17	Q2FY17 result update	3/5	₹518	5/5		₹340

<sup>1</sup> Note : We have not considered Satin's subsidiary Taraashana Services Pvt Ltd for the purpose of valuation

## Annexure: Financials (Standalone)

Income Statement						Ratios (adjusted as per CRISIL Research's standard parameters)					
(₹ mn)	FY14	FY15	FY16#	FY17E	FY18E	(₹ mn)	FY14	FY15	FY16#	FY17E	FY18E
Interest Income	1,905	3,219	5,227	6,696	8,257	<b>Spread Analysis (Avg. GLP)</b>					
Interest expense	1,061	1,775	2,899	3,477	4,089	Interest yield	23.3%	20.1%	19.3%	19.3%	19.1%
<b>Net Interest Income</b>	<b>845</b>	<b>1,444</b>	<b>2,328</b>	<b>3,219</b>	<b>4,168</b>	Cost of borrowings	14.2%	14.0%	13.2%	12.6%	12.5%
Fee income/ other income	11	23	359	439	611	Net Interest Margin (NIM)	10.3%	9.0%	8.6%	9.3%	9.5%
<b>Total Operating Income</b>	<b>856</b>	<b>1,467</b>	<b>2,687</b>	<b>3,658</b>	<b>4,779</b>	<b>Return Ratios</b>					
<b>Operating Expenses</b>	<b>524</b>	<b>885</b>	<b>1,575</b>	<b>2,165</b>	<b>2,805</b>	Adj. ROA (%)	1.4%	1.6%	1.7%	1.8%	1.9%
Staff Costs	236	392	884	1,156	1,518	Adj. ROE (%)	12.1%	20.1%	23.7%	16.7%	14.4%
Other Operating Expenses	288	493	691	1,008	1,287	<b>Growth ratios</b>					
<b>Pre- provision profit (PPP)</b>	<b>332</b>	<b>581</b>	<b>1,112</b>	<b>1,494</b>	<b>1,975</b>	Loan assets - including off-book (₹ mn)	82%	103%	53%	12%	36%
Provision & Contingency	91	97	208	212	383	Disbursements	96%	92%	52%	20%	40%
<b>Profit before depreciation and tax</b>	<b>241</b>	<b>484</b>	<b>904</b>	<b>1,282</b>	<b>1,592</b>	Net Interest Income	112%	71%	61%	38%	29%
Depreciation On Fixed Assets	7	20	29	43	66	Fee income/ other income	446%	104%	1490%	23%	39%
Extra-ordinary gain / (loss)	-	-	-	-	-	Total Operating Income	114%	71%	83%	36%	31%
<b>PBT</b>	<b>234</b>	<b>465</b>	<b>875</b>	<b>1,239</b>	<b>1,525</b>	Operating Expenses	65%	69%	78%	37%	30%
Provision for tax	78	148	296	409	458	Pre- provision profit (PPP)	303%	75%	91%	34%	32%
<b>PAT</b>	<b>156</b>	<b>317</b>	<b>579</b>	<b>830</b>	<b>1,068</b>	Provision & Contingency	304%	7%	114%	2%	81%
Minority Interest (MI)	-	-	-	-	-	Adjusted Net Profit	297%	103%	83%	43%	29%
<b>PAT after MI</b>	<b>156</b>	<b>317</b>	<b>579</b>	<b>830</b>	<b>1,068</b>	EPS (₹)	297%	82%	47%	22%	29%
						Book Value (₹)	8%	22%	36%	91%	15%
						<b>Asset Quality</b>					
<b>Balance sheet</b>						Gross NPA (%)	0.02%	0.02%	0.17%	0.20%	0.35%
(₹ mn)	FY14	FY15	FY16#	FY17E	FY18E	Net NPA (%)	0.02%	0.01%	0.08%	0.01%	0.02%
Equity share capital	227	254	315	371	371	Provision & writeoffs (as % of loan book)	1.6%	1.1%	0.6%	1.7%	1.8%
Reserves	1,108	1,566	2,752	6,524	7,591	<b>Valuation Data</b>					
<b>Shareholders Funds</b>	<b>1,335</b>	<b>1,820</b>	<b>3,067</b>	<b>6,895</b>	<b>7,962</b>	P/E (x)	49.5	27.2	18.5	15.2	11.8
Minority Interest	-	-	-	-	-	P/ABV (x)	5.8	4.7	3.5	1.8	1.6
Preference capital	60	60	-	250	250	<b>Key Parameters</b>					
<b>Borrowings</b>	<b>9,086</b>	<b>16,301</b>	<b>27,483</b>	<b>27,714</b>	<b>37,716</b>	GLP (₹ mn)	10,561	21,407	32,708	36,605	49,817
Other Liabilities & Provisions	607	1,665	2,084	2,015	2,743	Disbursements (₹ mn)	12,292	23,658	36,061	43,317	60,516
Deferred tax liability	-	-	-	-	-	<b>Capitalisation ratios (Adjusted)</b>					
<b>Sources of funds</b>	<b>11,089</b>	<b>19,846</b>	<b>32,634</b>	<b>36,874</b>	<b>48,671</b>	Capital adequacy ratio	15.3%	15.7%	16.8%	~32%	~27%
Cash & Bank Balances	2,872	4,588	8,344	11,164	13,892	<b>Efficiency ratio</b>					
Investments	1	1	1	498	498	Cost to Income ratio	62.0%	61.7%	59.7%	59.2%	58.7%
Net Loans and advances	7,897	14,803	23,574	24,154	32,869	Opex/ average assets	5.7%	5.9%	6.1%	6.4%	6.7%
Net Fixed Assets and Capital WIP	118	139	191	192	342	Leverage (x) (including managed assets)	8.8	12.7	12.2	5.8	6.8
Deferred tax asset	25	53	87	143	160	<b>Quarterly Financials</b>					
Other Assets	176	262	437	722	910	(₹ mn)	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17
<b>Application of funds</b>	<b>11,089</b>	<b>19,846</b>	<b>32,634</b>	<b>36,874</b>	<b>48,671</b>	Total operating income	603	692	850	976	1,044
						Change (q-o-q)	2%	15%	23%	15%	7%
						PAT	145	150	163	246	260
						Change (q-o-q)	20%	3%	9%	50%	6%
						<b>EPS (Basic)</b>	<b>5.1</b>	<b>5.0</b>	<b>5.6</b>	<b>7.7</b>	<b>8.1</b>
<b>Per share</b>											
(₹ mn)	FY14	FY15	FY16#	FY17E	FY18E						
Adj EPS (₹)	6.9	12.5	18.4	22.4	28.8						
Adj Book Value (₹)	59	72	97	186	214						
Dividend per share (₹)	0.0	0.0	0.0	0.0	0.0						
Actual o/s shares - mn	22.7	25.4	31.5	37.1	37.1						

Note: We have reclassified certain items of the financial statements as per CRISIL Research standard parameters

Source: Company, CRISIL Research



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## Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

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