

## Standing still in the hurricane

We retain Buy on Satin Creditcare (SNCL) with Buy and TP at Rs620. Q3'17 results were largely in-line with our estimates on profitability front. The quarter also surprised on upside with well-contained asset quality following material improvement in collection efficiency (CE). On a cumulative basis, CE stood at 94% (YTD) and is commendable given the challenges in recovery from key areas of operations hit by demonetisation coupled with political intervention. With upcoming state elections, we would watch for trend in CE in Q4'17. Growth in AuM remains intact, despite near term moderation. We remain positive on the MFI space and believe that with strong business model and capital position, SCNL is well-poised to capitalise on the opportunity in the space. Valuations at 1.8x FY19E ABV remain attractive.

- **Q3'17 results – performance blip due to demonetisation:** Q3'17 NII grew 34.6% to Rs911.7bn led by 31.7% YoY growth in overall GLP. Operating expenses were a tad higher at Rs629.4mn (+63.7% YoY) due to escalation of employee expenses on back of doubling of employee count. SCNL has not availed RBI dispensation on NPA recognition. After w/off loans to tune of Rs65mn for the quarter, GNPA came in at 0.5% of loans (0.24% QoQ) and NNPA was at 0.25% (vs. 0.12%). Resultant, net profit at Rs164.4mn grew a mere 9.5% YoY. Disbursements for Q3'17 were down 79% QoQ however, on a cumulative basis, disbursements have grown 24% YoY.
- **Collection efficiency (CE) improves; focus remains on volume based growth:** Our channel checks had pointed to steady rise in CE over Nov-Jan'17. The same was validated by the management during the concall. On a cumulative basis, CE stood at 94% YTD (vs. 99.5% for H1'17). CE for Nov dues have inched to 88% until Jan'17 and further to 92% in Feb. CE for Dec dues have inched to 80%+ till date. Q3'17 saw mere 2.5% of zero collection centres. With upcoming state elections, trend in CE needs close monitoring. We draw comfort in SCNL for its continued focus towards volume based growth as evident in Q3'17 results that saw AuM growth at 32% YoY led by 41.8% volume growth versus a decline of 7.3% in value.
- **Growth momentum intact despite near-term moderation:** Even as we build in lower growth for FY17, we believe that with underlying sector dynamics, inherent strength of the model and expansion strategy, SCNL is poised for robust growth over FY18-19E. We are building in 23% CAGR in AuM over FY16-19E. With excess cash on balance sheet leading to negative carry on margins, effective utilisation of cash is vital. We are building in gradual improvement in cash utilisation over FY17-19E. Cashless collections accounted for 22% in Dec'16 and the management has hinted to scale up the same to 30-35% by end FY18. It has initiated cashless disbursement on a pilot basis covering 10 branches and 25 branches are expected to be covered by Mar'17.
- **Earnings revision, valuation, view and key risks:** We have lowered our growth estimates for FY17E growth on AuM front, while revising our PAT estimates upward following strong profitability YTD. Our FY18E estimates have also been revised to factor in NIM compression and higher opex. We remain positive on SCNL for its business model, and capital position (overall CAR at 25.2% with tier-I CAR at 19%). We retain Buy arriving at a target price of Rs620 (valued at 2.5x FY19E ABV). The reduction in valuation multiple (from 3x FY18E ABV earlier), follows sub-16% RoEs for FY19E.

Y/E Mar (Rs mn)	Q3FY17	Q3FY16	YoY (%)	Q2FY17	QoQ (%)	Q3FY17E	% Var
<b>Net Interest Income</b>	<b>912</b>	<b>677</b>	<b>34.6</b>	<b>1,044</b>	<b>(12.7)</b>	<b>985</b>	<b>(7.4)</b>
Net Income	922	692	33.2	1,075	(14.2)	1,007	(8.4)
Operating Expenses	629	385	63.7	599	5.1	675	(6.8)
<b>Operating Profit</b>	<b>293</b>	<b>308</b>	<b>(4.8)</b>	<b>476</b>	<b>(38.5)</b>	<b>332</b>	<b>(11.8)</b>
Provisions	48	85	(43.6)	83	(42.2)	168	(71.6)
<b>Reported PAT</b>	<b>164</b>	<b>150</b>	<b>9.5</b>	<b>260</b>	<b>(36.9)</b>	<b>110</b>	<b>49.4</b>
<b>Gross Loan Portfolio</b>	<b>33,437</b>	<b>25,384</b>	<b>31.7</b>	<b>37,517</b>	<b>(10.9)</b>	<b>37,325</b>	<b>(10.4)</b>
<b>Disbursements</b>	<b>2,907</b>	<b>10,036</b>	<b>(71.0)</b>	<b>13,794</b>	<b>(79.0)</b>	<b>3,200</b>	<b>(9.2)</b>

Source: Company, Centrum Research

Y/E Mar (Rs mn)	Net Income#	PPOP	Adj PAT	YoY (%)	EPS (Rs)	P/E (x)	Adj BV (Rs)	P/Adj BV (x)	RoA (%)	RoE (%)
FY15	1,467	562	317	103.8	12.5	0.0	76.2	0.0	2.0	19.1
FY16	2,686	1,083	579	82.7	18.4	15.8	102.4	2.8	2.2	22.4
FY17E	3,959	1,502	812	40.3	21.9	20.7	186.8	2.4	2.1	15.9
FY18E	4,739	1,815	1,008	24.1	27.1	16.2	212.7	2.1	2.2	13.5
FY19E	5,864	2,349	1,355	34.4	36.5	12.1	247.6	1.8	2.4	15.7

Source: Company, Centrum Research Estimate. Standalone. #denotes net interest income + other income. FY15-17E have been valued on average market cap basis.

Target Price	Rs620	Key Data	
CMP*	Rs441	Bloomberg Code	SATININ
Upside	40.6%	Curr Shares O/S (mn)	37.6
Previous Target	Rs600	Diluted Shares O/S(mn)	37.6
Previous Rating	Buy	Mkt Cap (Rsbn/USDmn)	16.6/247.3
<b>Price Performance (%)*</b>		52 Wk H / L (Rs)	716.7/245
	<b>1M</b>	<b>6M</b>	<b>1Yr</b>
		5 Year H / L (Rs)	716.7/88.5
SATIN IN	29.0	(26.8)	33.9
Nifty	4.8	1.5	26.1
		Daily Vol. (3M NSE Avg.)	208590

\* as on 13 February 2017; Source: Bloomberg, Centrum Research

### Shareholding pattern (%)\*

	Dec-16	Oct-16	Aug-16
Promoter	33.0	33.0	37.6
Institution	48.7	49.8	43.4
Others	18.3	17.2	19.0

Source: Company, \* as on 13 February 2017

### Earning Revision

Particulars (Rs mn)	FY17E			FY18E		
	New	Old	Var (%)	New	Old	Var (%)
NII + Oth. Inc	3,959	3,949	0.2	4,739	5,257	(9.8)
PPop	1,502	1,520	(1.2)	1,815	2,266	(19.9)
Adj. PAT	812	775	4.8	1,008	1,136	(11.3)

Source: Centrum Research Estimates

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## Concall takeaways

- Collection efficiency (CE) trend remains encouraging with cumulative CE YTD at 94% (99.5% till H1FY17).
- CE for the month of Nov till Jan, 25th stood at 88.1%. It has moved up further to 92%. CE for Dec has moved up from 78% till Jan and further to 80%+.
- States of Punjab and UP go for polls in coming days. Management thus expects the trend in CE to improve considerable thereafter. **Punjab, for instance saw CE rise 300/400bps immediately after polls.**
- Amravati in Maharashtra continues to face challenge. Satin has 2% exposure to the state.
- Zero Collection centres stood at 2.5%. In terms of client base, exposure to these centres is less than 1.5%. **According to management, eventual loss in the event of default could be not more than 2-3%.**
- SCNL did not avail RBI dispensation in Q3FY17. It has written-off loans to the tune of Rs65mn during the quarter. GNPA, after the above adjustment was at 0.5%. NNPA was at 0.25%.
- Jan'17 saw pace of disbursement remain low, more following focus towards collection. Beginning Feb'17 disbursements have picked up with run-rate at Rs3bn. On a QoQ basis, management expects portfolio to remain flat.
- It has guided for consolidated **AuM of Rs55bn for FY18e (vs Rs37.3bn as at Dec'16).**
- **SCNL has initiated pilot based cashless disbursement through 10 centres. In terms of collections, 21.9% of collections were on a cashless basis pre-demonetisation and the management expects the same to improve to 30-35% by end FY18.**
- The co plans to add 80 branches in next 2-months. For FY18, management has guided for ~130 branches with focus into newer geographies of Orissa, Chattisgarh, Jharkhand, Rajasthan and West Bengal.
- BC model, Taraashna Services continues to do well. The co has received board approval to set-up housing finance arm.

## Earnings revision, Valuation and view

UP which contributes a chunk to the GLP (34.5%) has witnessed green shoots in terms of collection efficiency (CE) as indicated by the management. Our channel checks also confirm the same. UP has seen CE inch to 90%+.

SCNL Q3'17 results were better than our expectations given the challenging external environment. However on the base of the disbursement fall, we have revised our FY17E / FY18E AuM growth estimates lower.

We retain our positive stance on the MFI space given the growth potential. We although believe that volume based growth (ie borrower) over value based is a more prudent approach towards AuM growth. Retain our positive stance on SCNL given its business model and capital position (overall CAR at 25.2% with tier-I CAR at 19%). Buy, with TP at Rs620 (valued at 2.5x FY19E ABV). The reduction in valuation multiple (from 3x FY18E ABV earlier), follows sub-16% RoEs for FY19E. We have not ascribed any value to Taraashna Ltd.

### Exhibit 1: Earning Revision

Particulars (Rs mn)	FY17E			FY18E		
	New	Old	Var (%)	New	Old	Var (%)
NII + Oth. Inc	3,959	3,949	0.2	4,739	5,257	(9.8)
PPop	1,502	1,520	(1.2)	1,815	2,266	(19.9)
PAT	812	775	4.8	1,008	1,136	(11.3)

Source: Centrum Research Estimates

## Sensitivity analysis and peer comparison

**Exhibit 2: Sensitivity Analysis – impact of change in AuM and NIM on FY18 PBT**

% NIM	AuM				
	+ 10bps	+ 20bps	' Current level	- 10bps	- 20bps
- 10bps	(2.5)	(3.0)	(2.0)	(1.4)	(0.9)
- 5bps	(4.4)	(5.0)	(3.9)	(3.4)	(2.8)
Current levels	(0.5)	(1.1)	-	0.5	1.1
+ 5bps	1.4	0.9	2.0	2.5	3.0
+ 10bps	3.4	2.8	3.9	4.4	4.4

Source: Centrum Research Estimates

**Exhibit 3: Comparative Valuations**

Company	Mkt Cap (Rs mn)	CAGR % (FY16-FY18E)			PE (x)			RoA (%)			RoE (%)			P/BVPS (x)			Div Yield (%)		
		NII + Oth inc	PPOP	PAT	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E
SCNL*	16,572	32.8	29.4	31.9	15.8	20.7	16.2	2.2	2.1	2.2	22.4	15.9	13.5	2.8	2.4	2.1	0.0	0.0	0.0
Ujjivan*	50,666	30.3	12.9	8.4	-	20.6	24.4	3.7	3.4	2.2	18.3	15.1	11.2	-	2.6	2.6	0.1	0.2	0.4
BHAFIN	1,14,423	51.3	34.2	45.7	20.0	16.2	17.7	6.7	5.3	5.1	42.0	19.8	20.3	4.4	3.6	2.7	0.0	0.8	0.8
Equitas	61,608	49.8	51.2	20.9	-	29.9	25.5	2.3	2.2	2.2	10.4	10.1	12.6	-	2.5	2.2	0.0	0.0	0.6

Source: Bloomberg consensus, \*Centrum Research Estimates. FY16-17E have been valued on average market cap basis.

**Exhibit 4: Quarterly financials**

(Rs mn)	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
<b>Income statement</b>								
Interest earned	996	1,136	1,261	1,424	1,702	1,951	2,059	2,073
Interest expended	570	603	668	746	881	975	1,015	1,161
<b>Net interest income</b>	<b>426</b>	<b>532</b>	<b>593</b>	<b>677</b>	<b>821</b>	<b>976</b>	<b>1,044</b>	<b>912</b>
Non-interest income	9	9	10	15	29	17	31	10
<b>Total income</b>	<b>435</b>	<b>542</b>	<b>603</b>	<b>692</b>	<b>850</b>	<b>993</b>	<b>1,075</b>	<b>922</b>
Operating expenses	241	351	362	385	505	576	599	629
<b>PPOP</b>	<b>194</b>	<b>190</b>	<b>241</b>	<b>308</b>	<b>344</b>	<b>417</b>	<b>476</b>	<b>293</b>
Provisions	36	9	21	85	94	53	83	48
<b>PBT</b>	<b>158</b>	<b>181</b>	<b>220</b>	<b>223</b>	<b>250</b>	<b>364</b>	<b>393</b>	<b>245</b>
DTL provisioning	15	3	3	12	15	7	18	0
<b>Profit after tax</b>	<b>105</b>	<b>121</b>	<b>144</b>	<b>150</b>	<b>163</b>	<b>246</b>	<b>260</b>	<b>164</b>
<b>Growth YoY (%)</b>								
NII		78.6	68.0	84.6	92.7	83.3	75.9	34.6
Opex		87.3	52.5	60.9	109.6	63.9	65.4	63.7
PPOP		63.7	103.9	131.2	77.5	119.0	97.4	(4.8)
PAT		74.5	118.2	93.9	56.4	103.8	80.3	9.5
<b>Asset quality (%)</b>								
GNPA	0.02		0.21		0.17	0.19	0.24	0.50
NNPA	0.01		0.11		0.09	0.09	0.12	0.25

Source: Company, Centrum Research

## Financials (Standalone)

### Exhibit 5: Income Statement

Y/E March (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
Interest Income	2,929	5,049	6,783	7,952	9,996
Interest Expense	1,775	2,899	3,945	4,628	5,581
<b>Net Interest Income</b>	<b>1,154</b>	<b>2,150</b>	<b>2,838</b>	<b>3,324</b>	<b>4,415</b>
Non-Interest Income	313	536	1,120	1,415	1,450
<b>Total Net Income</b>	<b>1,467</b>	<b>2,686</b>	<b>3,959</b>	<b>4,739</b>	<b>5,864</b>
<b>Total Operating Expenses</b>	<b>905</b>	<b>1,603</b>	<b>2,457</b>	<b>2,924</b>	<b>3,515</b>
Employee expenses	392	884	1,252	1,555	1,824
Other Operating Expenses	513	719	1,204	1,369	1,691
<b>Pre-provision Profit</b>	<b>562</b>	<b>1,083</b>	<b>1,502</b>	<b>1,815</b>	<b>2,349</b>
Provisions & Contingencies	97	208	280	299	313
<b>Profit Before Tax</b>	<b>465</b>	<b>875</b>	<b>1,222</b>	<b>1,516</b>	<b>2,037</b>
Taxes	148	296	409	508	682
<b>Profit after tax</b>	<b>317</b>	<b>579</b>	<b>812</b>	<b>1,008</b>	<b>1,355</b>

Source: Company, Centrum Research Estimates

### Exhibit 6: Balance sheet

Y/E March (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
Other assets	4,033	8,492	14,926	13,384	12,443
Loans & Advances	14,774	22,995	25,886	34,254	46,015
Investments	1	1	499	499	499
<b>Total Int Earning Assets</b>	<b>18,808</b>	<b>31,488</b>	<b>41,311</b>	<b>48,137</b>	<b>58,957</b>
Fixed Assets	144	213	450	493	540
Other non-current assets	1,155	1334	1,408	1,506	1,620
<b>Total Assets</b>	<b>20,107</b>	<b>33,034</b>	<b>43,169</b>	<b>50,136</b>	<b>61,117</b>
<b>Interest Bearing Liabilities</b>	<b>16,361</b>	<b>27,483</b>	<b>33,149</b>	<b>38,739</b>	<b>47,909</b>
Other non int bearing Liab	1,812	2,311	3,039	3,442	3,935
<b>Total Liabilities</b>	<b>18,172</b>	<b>29,794</b>	<b>36,188</b>	<b>42,182</b>	<b>51,845</b>
Equity	1,935	3,240	6,981	7,954	9,273
<b>Total Liabilities</b>	<b>20,107</b>	<b>33,034</b>	<b>43,169</b>	<b>50,136</b>	<b>61,117</b>

Source: Company, Centrum Research Estimates

### Exhibit 7: DuPont analysis

(% of avg assets)	FY15	FY16	FY17E	FY18E	FY19E
Yield on assets	18.7	19.0	17.8	17.0	18.0
Cost of funds	12.4	11.8	11.2	10.7	10.8
Spreads	4.7	5.8	4.7	4.1	5.0
<b>NIM</b>	<b>8.2</b>	<b>8.9</b>	<b>8.2</b>	<b>7.8</b>	<b>8.6</b>
Other income	2.0	2.0	2.9	3.0	2.6
<b>Total income</b>	<b>9.4</b>	<b>10.1</b>	<b>10.4</b>	<b>10.2</b>	<b>10.5</b>
Operating expenses	5.8	6.0	6.4	6.3	6.3
Provisions	0.6	0.8	0.7	0.6	0.6
<b>PBT</b>	<b>3.0</b>	<b>3.3</b>	<b>3.2</b>	<b>3.2</b>	<b>3.7</b>
Tax	0.9	1.1	1.1	1.1	1.2
<b>RoA</b>	<b>2.0</b>	<b>2.2</b>	<b>2.1</b>	<b>2.2</b>	<b>2.4</b>
Leverage	9.4	10.3	7.5	6.2	6.5
<b>RoE</b>	<b>19.1</b>	<b>22.4</b>	<b>15.9</b>	<b>13.5</b>	<b>15.7</b>

Source: Company, Centrum Research Estimates

### Exhibit 8: Financial ratios

Y/E March	FY15	FY16	FY17E	FY18E	FY19E
<b>Growth Ratios (%)</b>					
Loans	87.9	55.6	12.6	32.3	34.3
AuM	102.7	52.8	3.0	34.0	35.5
Assets	79.3	64.3	30.7	16.1	21.9
Borrowings	78.9	68.0	20.6	16.9	23.7
NII	81.8	86.3	32.0	17.1	32.8
Provisions	6.7	114.4	34.6	6.8	4.5
PAT	103.8	82.7	40.3	24.1	34.4
<b>Operating Ratios (%)</b>					
Yield on advances	21.0	20.1	22.5	21.8	20.5
Cost of borrowings	14.0	13.2	13.1	13.0	13.0
NIM (on AuM)	7.2	7.9	8.6	8.4	8.3
Fee to disbursement	1.0	1.0	1.0	1.0	1.0
Cost/Income	61.7	59.7	62.1	61.7	59.9
Opex/ Avg AuM	5.7	5.9	7.4	7.4	6.6
Effective tax rate	31.8	33.8	33.5	33.5	33.5
RoA	2.0	2.2	2.1	2.2	2.4
RoE	19.1	22.4	15.9	13.5	15.7
RoTA (inld.off-balance sheet)	1.6	1.7	1.7	1.8	2.0
<b>Credit Quality Ratios (%)</b>					
Gross NPA	0.03	0.20	0.41	0.42	0.43
Net NPA	0.02	0.09	0.22	0.22	0.23
NPA coverage ratio	51.2	64.8	58.5	59.8	59.4
	0.03	0.20	0.41	0.42	0.43
<b>Capital Adequacy Ratios (x)</b>					
Total CAR	15.7	16.8	22.7	21.7	20.1
Tier I	9.6	11.6	17.9	17.5	16.7
Tier II	6.1	5.2	4.8	4.1	3.4
Assets/equity (x)	9.4	10.3	7.5	6.2	6.5
<b>Per Share (Rs)</b>					
BVPS	76.2	102.9	188.0	214.2	249.7
Adjusted BVPS	76.2	102.4	186.8	212.7	247.6
EPS - basic	12.5	18.4	21.9	27.1	36.5
<b>Valuations Ratios</b>					
Price/BV (x)		2.8	2.4	2.1	1.8
Price/Adj. BV (x)		2.8	2.4	2.1	1.8
P/E (x)		15.8	20.7	16.2	12.1

Source: Company, Centrum Research Estimates. FY15-17E have been valued on average market cap basis.

## Appendix A

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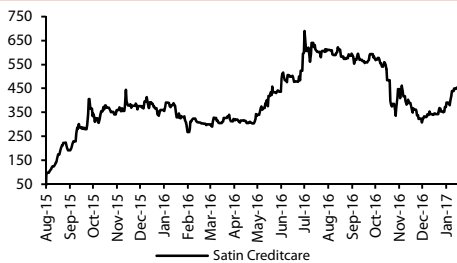
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### Satin Creditcare price chart



Source: Bloomberg, Centrum Research

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<b>Buy</b>	Upside > 20%	Upside > 15%	Upside > 10%
<b>Hold</b>	Upside between -20% to +20%	Upside between -15% to +15%	Upside between -10% to +10%
<b>Sell</b>	Downside > 20%	Downside > 15%	Downside > 10%

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