

Satin Creditcare Network Ltd



Waiting for dust to settle!

We hosted the top management of Satin Creditcare for a conference call to understand the near term and long term impact of demonetization on its performance. As per the management, the **ground situation is getting better with each passing day** as collection efficiency is recovering. Apart from few pockets in western UP (20% of AUM), the collection trends in most other operating regions have been encouraging. This should soothe the lenders who are expected to reinforce faith. At present, **Satin's liquidity position is very comfortable** though. The **borrowers have all intentions to pay**, their earning capacity is intact and they are well abreast of the consequences of a default. Thus, **probability of NPLs rising is low**.

Company will resume disbursements from next week. The cashless model is being piloted and would be rolled out across all branches. With the pace of pick-up in disbursements likely to be gradual over coming months, Satin is unlikely to meet its annual AUM growth target. However, it is **hopeful of reverting to its erstwhile growth momentum in FY18**. The **management is also likely to put brakes on network and resource expansion in the near term** and strive to removed cost inefficiencies to mitigate the impact of a slower growth on profitability.

We put our rating on Satin under review with uncertainty still prevailing over the holistic impact of demonetization on company's H2 FY17 performance. While we are reasonably confident about resurrection of growth momentum in FY18, there is low visibility around evolution of the next couple of quarters and thus forecasting at this juncture could be futile. While we like the MFI space we would prefer to wait and see how the situation unfolds and how companies respond to the same.

Analyst: Rajiv Mehta, Franklin Moraes

CMP (Rs) 405 **Rating: Under Review**

Stock data (As on November 24, 2016)

Sector: Financials

Sensex:	25,860
52 Week h/l (Rs):	717 / 264
Market cap (Rs mn) :	15,204
Enterprise value (Rs mn):	-
6m Avg t/o (Rs mn):	174
FV (Rs):	10
Div yield (%):	0.0

Bloomberg code:	SATIN IN
BSE code:	539404
NSE code:	SATIN

Shareholding pattern (%)

Promoter	33.0
FII+DII	24.6
Others	42.4

Top institutional shareholders

Entity	%
Morgan Stanley Mauritius Co. Ltd	4.34
Morgan Stanley Asia (S'pore) PTE	2.95
Citigrp. Global Mkts. Pvt. Ltd.	1.77
Govt. Pension Fund Global	1.57
DB International (Asia) Ltd.	1.45
Morgan Stanley Inv. Mauritius	1.2

Stock performance



	1M	3M	1Y
Absolute return (%)	0.6	(44.8)	(2.8)

Financial summary

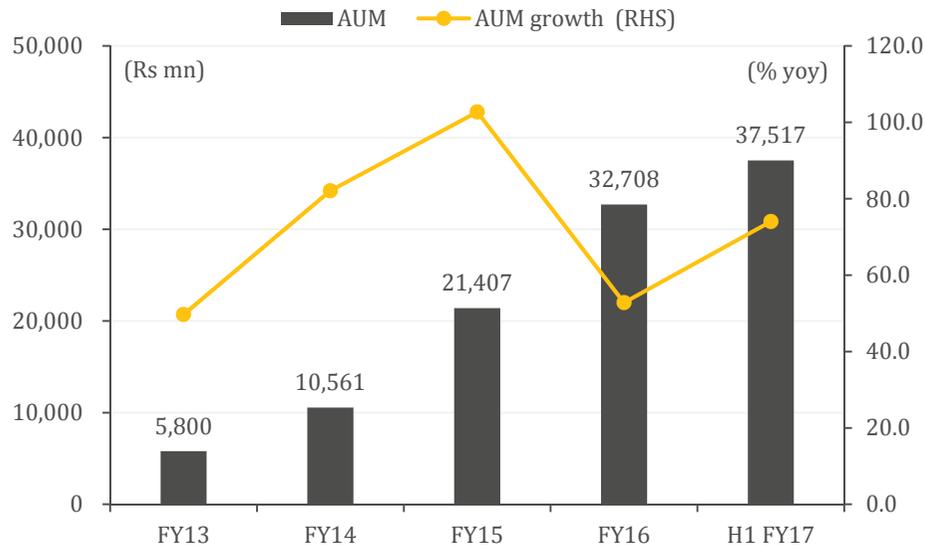
Y/e 31 Mar (Rs m)	FY13	FY14	FY15	FY16	H1 FY17
Total operating income	400	855	1,467	2,686	2,067
yoy growth (%)	34.0	113.8	71.5	83.1	80.6
Op. profit (pre-prov.)	53	312	614	1,083	893
Net profit	39	156	322	580	507
yoy growth (%)	90.2	302.6	106.0	80.1	90.3
EPS (Rs)*@	1.7	6.8	12.6	18.3	27.0
Adj.BVPS (Rs) @	54.3	63.6	78.6	102.2	181.5
P/E (x)	228.1	57.0	30.9	21.3	15.0
P/adj.BV (x)	7.2	6.1	5.0	3.8	2.2
ROE (%)*	3.8	11.6	18.6	22.1	24.6
ROA (%)*	0.7	1.7	2.0	2.2	2.7
CAR (%)	23.4	15.3	15.7	16.8	18.3

Source: Company, IIFL Research, * annualized, @ adjusted for QIP of Rs2.5bn in October

Key takeaways from the Call:

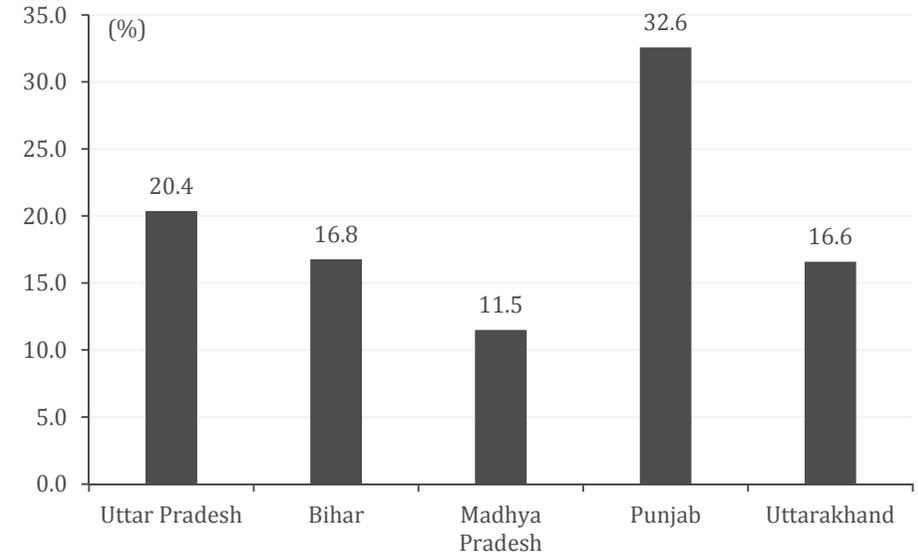
- The company has resumed collections from November 14 and the collection efficiency has been improving since then as circulation of the new currency has been on the rise. From 15% on November 14, collection efficiency has improved to ~55% at present. Amongst Satin's key operating regions, Bihar, Punjab, MP and Eastern UP are witnessing higher-than-average collection efficiency while it is much lower at 30-35% in Western UP which comprises ~20% of the AUM.
- As per the management, in few pockets of Western UP, the borrowers are being misled to believe that there could be a loan waiver which has impacted the collection rate. This is being done by people affiliated with political parties and commission agents trying to exploit the situation for personal benefits. However, the company is making persistent efforts to sensitize customers and has engaged with district magistrates to pass the message that there is no loan waiver. Satin is hoping that the situation in Western UP will settle down soon. In our view, aggravation of situation in UP remains an outside risk given state elections in early 2017.
- Given the small size of loan installments (ranging Rs800 to Rs1,400), MFI customers have generally managed to pay even when the broader economy is under stress. The company has experienced it in the previous cycles. This time the borrowers are also well aware that they cannot afford to default as their credit record would be hampered. The below trend collections currently seen are mainly due to unavailability of sufficient new currency to repay. Customers have all intentions to pay; the attendance level in center meetings has not fallen dramatically (is at 60-70% as compared to usual 80%) and is even attended by borrowers facing cash crunch.
- Satin's liquidity position is comfortable with enough resources to meet financial obligations of the coming six months. Rs2.5bn QIP funds received in October had augmented balance sheet liquidity before demonetization. The management shared that company was able to raise ~Rs800mn of debt even in the past few days. There are undisbursed sanctions of Rs2.5-3bn which would be available for drawdown on further improvement in circumstances. Company believes that availability of funds from banks should not be any issue given it has a large basket of lenders. Rating agencies are closely monitoring the situation and are taking updates from the company.
- Management plans to start disbursements from the coming week. While a precise strategy for disbursements is still under works, it is likely that in the initial phase, the disbursements could be targeted towards customers who recently closed their loans and have a satisfactory repayment record. The ticket size of loans could also be smaller than what was prevalent pre-demonetization. Company believes that resumption of disbursement would also send out a positive signal to various stakeholders.
- The pace of disbursement is expected to gradually pick up over the coming months. While Q4 FY17 is expected to be significantly better than Q3 FY17, Satin acknowledges that it will not be able to meet its year-end AUM target articulated before demonetization. However, the company is reasonably confident about resuming its high growth momentum in FY18.
- With necessary infrastructure falling in place, Satin has been running pilots for cashless disbursements. A representative sample survey done by the company has revealed that about 50% of its borrowers have bank accounts. On success of these pilots, the management would rollout this facility to all its branches. This would significantly reduce the risk of dealing with cash. Collection of installments through banks will be the subsequent objective of the company.
- In response to an imminent moderation in asset growth in the remainder of the fiscal, the company would calibrate its branch and resource expansion plan while also looking at any scope for cost optimization. Satin believes that apart from slight tweaking, the operating model will remain largely the same in the longer term.

Chart 1: Growth momentum in AUM has been strong



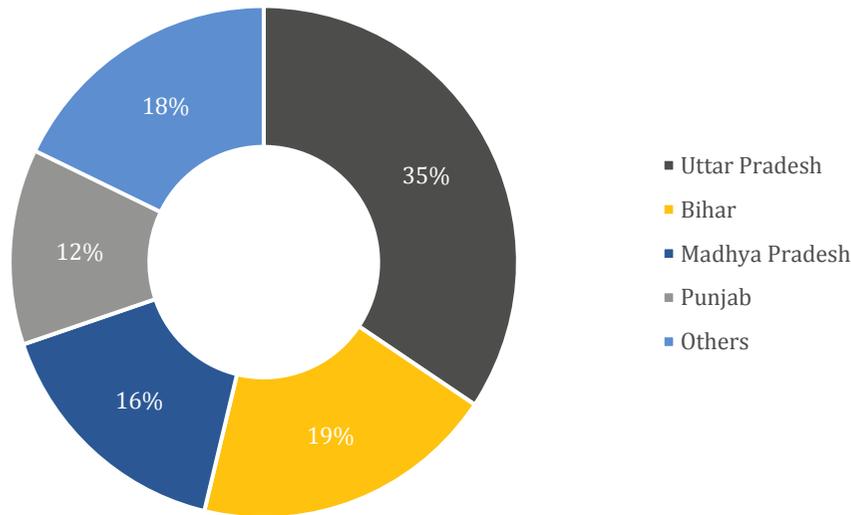
Source: Company, IIFL Research

Chart 3: Satin's market share in its key states



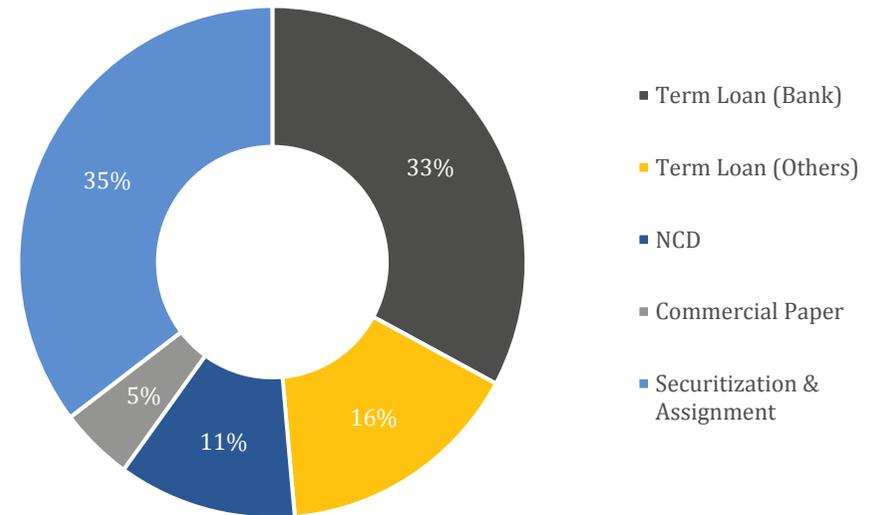
Source: Company, IIFL Research

Chart 2: State-wise AUM mix



Source: Company, IIFL Research

Chart 4: Borrowing mix including securitization



Source: Company, IIFL Research

IIFL Wealth Research bags 2 Best Analyst Awards

IIFL Wealth Research has bagged two prestigious awards at the *Zee Business Market Excellence Awards 2016*.

Prayesh Jain was conferred the Best Analyst Award for Auto sector and **Bhavesh Gandhi** bagged the Best Analyst Award for Pharma sector.

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Buy = >15%+

Accumulate = 5% to 15%

Reduce = -10% to 5%

Sell = >-10%

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