

## On a growth path

We retain Buy on Satin Creditcare (SATIN) with TP revised upwards to Rs550 (vs. Rs440 earlier). The upward revision to our TP follows yet another quarter of strong AuM / disbursement growth (up 7.9% / 5.9% QoQ respectively), indicating growth revival and further reduction in GNPA (down 13.4% QoQ to 9.2% of loans) led by higher recoveries – points to continued efforts at containing NPA. While the challenge on the latter aspect remains, it is going to be more of a near-term pain. Penetration into newer geographies, SATIN's strong capital position (CAR / tier I at 26.6% / 22.0% respectively as at Q3'18) and the underlying sector dynamics will aid in healthy AuM growth over FY18-20E. Even as the stock is up ~50% since our Q2'18 result update, we believe valuations at 2x FY20E ABV are attractive.

- **Q3'18 –Strong quarter:** Standalone Q3'18 NII at Rs1.2bn grew 32.9% YoY / 2.8% QoQ led by healthy AuM growth (28.7% YoY / 7.9% QoQ). Reported NIM however was a tad lower at 12.1% (-31bps QoQ) owing to sharper contraction in yields. Operating expenses saw a spurt owing to 48 new branches being added; operating profit came in at Rs534mn (+82.6% YoY). Asset quality saw improvement with GNPA at Rs3.9bn (down 13.4% QoQ) or 9.2% of gross AuM (vs. 14.7% in Q1'18 and 11.4% in Q2'18). The quarter saw provisions to the tune of Rs174mn (vs. Rs371mn QoQ) and included Rs169mn of provision towards PAR-O portfolio. Cumulative NPA provisions stand at Rs2.4bn. PAT came in at Rs227.9mn (+38.6% YoY).
- **Growth rates accelerate; asset quality sees further improvement:** Disbursements at Rs12.4bn (+5.9% QoQ) have shown an encouraging trend and have scaled back to pre-demonetisation levels. On the AuM side, growth was driven by continued traction in newer geographies viz; Bihar, West Bengal, Assam and Orissa. The increasing dependence on the newer states has in-turn has also enabled SATIN reduce its exposure in UP state (down by 213bps QoQ to 34.7%). Collection efficiency (CE) has been improving with cumulative CE at 103% vs 85% in Q4FY17. The improved CE has also contributed to reduction in GNPA, primarily being in form of higher recoveries at Rs610mn. Zero collection clients stood at 62,000 in Q3'18 (vs. 167,000 in Q4'17). This count has reduced further to ~57,500 in Jan'18; Zero collection centres stood at 708 in Q3FY18 (vs. 1,732 in Q1'18).
- **Earnings outlook:** In our Q2'18 result update note, we had pointed to the need for greater focus at a) reducing overall GNPA b) expansion into newer geographies (mitigate concentration risk) and c) cashless disbursements for better controls. These aspects have played out well and we believe will continue to hold significance. We expect growth rates to accelerate and will aid in superior revenue growth. The elevated NPA (though on a declining trend and is an outcome of sticky accounts) will see near-term provisioning remain high. We have factored the same into our estimates.
- **Valuation, view and key risks:** We have tweaked our earnings marginally, factored in the recent fund raise (SATIN has raise ~Rs3.6bn via equity in 9MFY18) and rolled our valuations to FY20E. Retain BUY with TP at Rs550 (valued at 2.3x FY20E ABV). Key risks – lower growth; longer than expected time towards NPA reduction.

Y/E Mar (Rs mn)	Q3FY18	Q3FY17	YoY (%)	Q2FY18	QoQ (%)	Q3FY18E	Var(%)
<b>Net Income</b>	<b>1,212</b>	<b>922</b>	<b>32.9</b>	<b>1,206</b>	<b>2.8</b>	<b>1,218</b>	<b>3.3</b>
Operating Profit	535	293	82.6	562	(4.9)	542	(1.4)
Provisions	174	48	264.6	371	(53.1)	298	(41.5)
<b>Reported PAT</b>	<b>228</b>	<b>164</b>	<b>38.7</b>	<b>126</b>	<b>81.0</b>	<b>164</b>	<b>39.2</b>
<b>GNPA</b>	<b>3,948</b>	<b>166</b>	<b>NA</b>	<b>4,560</b>	<b>(13.4)</b>	<b>3,960</b>	<b>(0.3)</b>
GNPA (%)	9.2	0.5	867bps	11.4	(226)bps	9.2	(1)bp
<b>GLP</b>	<b>43,044</b>	<b>33,437</b>	<b>28.7</b>	<b>39,875</b>	<b>7.9</b>	<b>42,811</b>	<b>0.5</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 (%)
FY16	2,686	1,083	579	82.7	18.4	15.8	102.0	2.9	2.2	22.4
FY17	3,415	934	245	(57.8)	6.6	60.3	169.5	2.3	0.6	5.1
FY18E	4,832	1,941	(217)	(188.8)	(4.6)	NA	167.0	1.8	(0.4)	(2.7)
FY19E	5,828	2,365	1,061	NA	22.3	20.9	201.6	2.3	1.7	10.4
FY20E	7,402	3,181	1,511	42.4	30.5	15.2	233.6	2.0	1.9	12.9

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

In the interest of timeliness, this document is not edited

Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

Target Price	Rs550	Key Data	
CMP*	Rs465	Bloomberg Code	SATININ
Upside	18.3%	Curr Shares O/S (mn)	44.7
Previous Target	Rs440	Diluted Shares O/S(mn)	44.7
Previous Rating	Buy	Mkt Cap (Rsbn/USDmn)	22.1/346.5
<b>Price Performance (%)*</b>		52 Wk H / L (Rs)	525.3/242.1
	<b>1M</b>	<b>6M</b>	<b>1Yr</b>
		5 Year H / L (Rs)	716.7/88
SATININ	(8.5)	75.4	13.0
Nifty	(1.5)	8.0	21.2
		Daily Vol. (3M NSE Avg.)	285396

\* as on 14 February 2018; Source: Bloomberg, Centrum Research

### Shareholding pattern (%)\*

	Dec-17	Sep-17	Jun-17	Mar-17
Promoter	27.4	29.3	32.9	32.9
Institution	30.9	31.3	22.7	21.6
Others	41.7	39.5	44.4	45.5

Source: Company, \* as on 14 February 2018

## Concall takeaways

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- Collection efficiency (CE) trend remains encouraging with cumulative CE YTD at 103% (vs 85% in Q4FY17 and 103% till H1FY17). CE was at 98% for disbursements after Dec'16.
- Share of UP in the AuM has declined to 34.7% (vs. 36.9% in Q2FY18). Management has guided for further reduction in state concentration. On the growth side, sequential growth in AuM was led by healthy traction in newer geographies, viz; Bihar, West Bengal, Assam and Orissa. These states (combined) contribute 22.9% of total AuM vs. 18.1% in the last quarter.
- Proportion of cashless disbursements have witnessed a healthy traction and has improved from 1% in Q1'17, 16% in Q2'17 to 26% in Q3'18. The ratio has improved further to ~30% (Jan'18) and the management is targeting a ratio of 50% by Q1FY19.
- Guidance on consolidated AuM of Rs55bn for FY18 remains unchanged. Management has guided for 35-40% YoY growth in AuM over FY19-20E.
- On the asset quality front, zero collection clients are down to 62,000 in Q3'18 (58,000 in Jan'18) vs. 81,000 in Q2'18. Management has guided at further reducing the count. However, given the stickiness, collections could take longer than expected. We will watch for trends therein.
- 9MFY18 saw Satin add 110 branches, taking its total count to 728 branches.

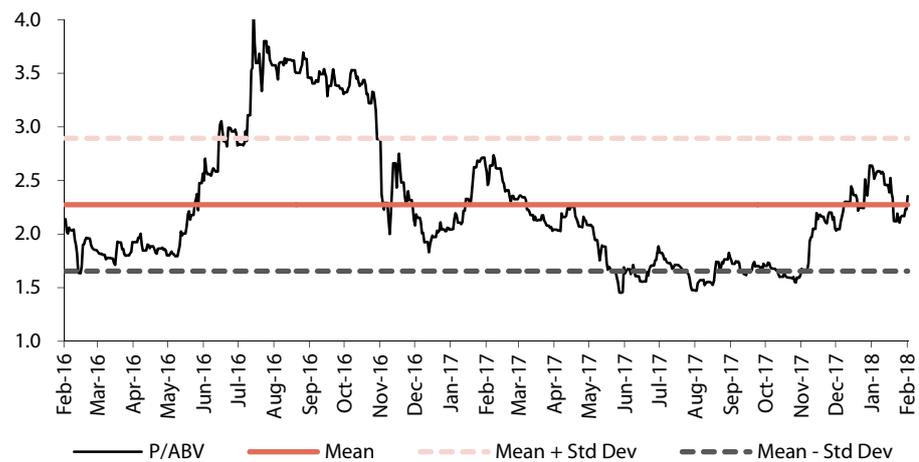
## Sensitivity analysis and peer comparison

**Exhibit 1: Sensitivity Analysis – impact of change in AuM and NIM on FY18 PBT**

%	AuM					
	+ 10bps	+ 20bps	' Current level	- 10bps	- 20bps	
NIM	- 10bps	12.9	16.4	9.4	5.9	2.4
	- 5bps	22.3	25.8	18.8	15.3	11.8
	Current levels	3.5	7.0	0.0	(3.5)	(7.0)
	+ 5bps	(5.9)	(2.4)	(9.4)	(12.9)	(16.4)
	+ 10bps	(15.3)	(11.8)	(18.8)	(22.3)	(22.3)

Source: Centrum Research Estimates

**Exhibit 2: Rolling forward P/ABV chart**



Source: Bloomberg, Company, Centrum Research Estimates

**Exhibit 3: Comparative Valuations**

Company	Mkt Cap (Rs mn)	CAGR % (FY17-FY19E)			PE (x)			RoA (%)			RoE (%)			P/BVPS (x)		
		NII + Oth inc	PPOP	PAT	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
SATIN*	22,147	30.6	59.1	108.3	60.3	NA	20.9	0.6	(0.4)	1.7	5.1	(2.7)	10.4	2.3	1.5	2.1
Ujivan*	44,177	15.2	0.4	(4.1)	21.6	NA	23.0	2.9	(0.1)	1.7	14.1	(0.4)	10.5	2.6	2.4	2.3
BHAFIN	48,963	19.2	(1.4)	(5.3)	30.6	118.4	30.9	2.3	0.5	1.2	9.8	1.9	6.7	2.4	2.3	2.0
Equitas	1,41,893	33.1	37.9	16.3	18.5	26.0	17.6	6.4	3.7	4.5	30.2	16.9	22.4	4.1	4.0	3.6

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

**Exhibit 4: Quarterly financials**

(Rs mn)	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
<b>Income statement</b>								
Interest earned	1,702	1,951	2,059	2,073	1,594	2,064	2,370	2,443
Interest expended	881	975	1,015	1,161	1,201	1,206	1,191	1,231
<b>Net interest income</b>	<b>821</b>	<b>976</b>	<b>1,044</b>	<b>912</b>	<b>394</b>	<b>859</b>	<b>1,179</b>	<b>1,212</b>
Non-interest income	29	17	31	10	54	61	27	45
<b>Total income</b>	<b>850</b>	<b>993</b>	<b>1,075</b>	<b>922</b>	<b>448</b>	<b>920</b>	<b>1,206</b>	<b>1,257</b>
Operating expenses	505	576	599	629	677	634	644	723
<b>PPOP</b>	<b>344</b>	<b>417</b>	<b>476</b>	<b>293</b>	<b>(229)</b>	<b>286</b>	<b>562</b>	<b>534</b>
Provisions	94	53	83	48	401	1,474	371	174
<b>PBT</b>	<b>250</b>	<b>364</b>	<b>393</b>	<b>245</b>	<b>(630)</b>	<b>(1,188)</b>	<b>191</b>	<b>360</b>
Tax expense	87	118	133	81	(205)	(408)	65	132
<b>Profit after tax</b>	<b>163</b>	<b>246</b>	<b>260</b>	<b>164</b>	<b>(426)</b>	<b>(780)</b>	<b>126</b>	<b>228</b>
<b>Growth YoY (%)</b>								
NII	92.7	83.3	75.9	34.6	(52.1)	(12.0)	12.9	32.9
Opex	109.6	63.9	65.4	63.7	33.9	10.1	7.5	14.8
PPOP	77.5	119.0	97.4	(4.8)	NA	(31.6)	18.2	82.6
PAT	56.4	103.8	80.3	9.5	NA	NA	(51.6)	38.6
<b>Asset quality (%)</b>								
GNPA	0.17	0.19	0.24	0.50	12.74	14.66	11.43	9.17
NNPA	0.09	0.09	0.12	0.25	10.61	9.73	5.95	3.67

Source: Company, Centrum Research

## Financials (Standalone)

### Exhibit 5: Income Statement

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Interest Income	5,049	6,853	8,629	10,271	12,805
Interest Expense	2,899	4,351	4,901	5,658	6,885
<b>Net Interest Income</b>	<b>2,150</b>	<b>2,501</b>	<b>3,727</b>	<b>4,613</b>	<b>5,921</b>
Non-Interest Income	536	914	1,104	1,215	1,482
<b>Total Net Income</b>	<b>2,686</b>	<b>3,415</b>	<b>4,832</b>	<b>5,828</b>	<b>7,402</b>
<b>Total Operating Expenses</b>	<b>1,603</b>	<b>2,481</b>	<b>2,891</b>	<b>3,463</b>	<b>4,221</b>
Employee expenses	884	1,568	1,878	2,281	2,821
Other Operating Expenses	719	913	1,013	1,182	1,401
<b>Pre-provision Profit</b>	<b>1,083</b>	<b>934</b>	<b>1,941</b>	<b>2,365</b>	<b>3,181</b>
Provisions & Contingencies	208	563	2,265	769	909
<b>Profit Before Tax</b>	<b>875</b>	<b>372</b>	<b>(324)</b>	<b>1,595</b>	<b>2,271</b>
Taxes	296	127	(107)	534	761
<b>Profit after tax</b>	<b>579</b>	<b>245</b>	<b>(217)</b>	<b>1,061</b>	<b>1,511</b>

Source: Company, Centrum Research Estimates

### Exhibit 6: Balance sheet

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Other assets	7,900	12,254	14,121	13,660	15,395
Loans & Advances	22,995	32,227	41,310	52,595	67,491
Investments	1	703	498	498	498
<b>Total Int Earning Assets</b>	<b>30,896</b>	<b>45,184</b>	<b>55,929</b>	<b>66,753</b>	<b>83,384</b>
Fixed Assets	213	499	541	587	638
Other non-current assets	1,925	1,801	1,944	2,106	2,297
<b>Total Assets</b>	<b>33,034</b>	<b>47,484</b>	<b>58,413</b>	<b>69,446</b>	<b>86,320</b>
<b>Interest Bearing Liabilities</b>	<b>27,483</b>	<b>38,804</b>	<b>44,168</b>	<b>52,783</b>	<b>66,580</b>
Other non int bearing Liab	2,311	2,309	4,518	5,942	7,093
<b>Total Liabilities</b>	<b>29,794</b>	<b>41,112</b>	<b>48,686</b>	<b>58,724</b>	<b>73,673</b>
Equity	3,240	6,372	9,727	10,721	12,647
<b>Total Liabilities</b>	<b>33,034</b>	<b>47,484</b>	<b>58,413</b>	<b>69,446</b>	<b>86,320</b>

Source: Company, Centrum Research Estimates

### Exhibit 7: DuPont analysis

(% of avg assets)	FY16	FY17	FY18E	FY19E	FY20E
Yield on assets	19.0	17.0	16.3	16.1	16.4
Cost of funds	11.8	11.5	9.9	9.7	9.7
Spreads	5.8	3.8	4.4	4.3	4.9
<b>NIM</b>	<b>8.9</b>	<b>6.8</b>	<b>7.6</b>	<b>7.7</b>	<b>8.1</b>
Other income	2.0	2.3	2.1	1.9	1.9
<b>Total income</b>	<b>10.1</b>	<b>8.5</b>	<b>9.1</b>	<b>9.1</b>	<b>9.5</b>
Operating expenses	6.0	6.2	5.5	5.4	5.4
<b>PPoP</b>	<b>4.1</b>	<b>2.3</b>	<b>3.7</b>	<b>3.7</b>	<b>4.1</b>
Provisions	0.8	1.4	4.3	1.2	1.2
<b>PBT</b>	<b>3.3</b>	<b>0.9</b>	<b>(0.6)</b>	<b>2.5</b>	<b>2.9</b>
Tax	1.1	0.3	(0.2)	0.8	1.0
<b>RoA</b>	<b>2.2</b>	<b>0.6</b>	<b>(0.4)</b>	<b>1.7</b>	<b>1.9</b>
Leverage	10.3	8.4	6.6	6.3	6.7
<b>RoE</b>	<b>22.4</b>	<b>5.1</b>	<b>(2.7)</b>	<b>10.4</b>	<b>12.9</b>

Source: Company, Centrum Research Estimates

### Exhibit 8: Financial ratios

Y/E March	FY16	FY17	FY18E	FY19E	FY20E
<b>Growth Ratios (%)</b>					
Loans	55.6	40.1	28.2	27.3	28.3
AuM	52.8	10.6	25.6	29.0	28.7
Assets	64.3	43.7	23.0	18.9	24.3
Borrowings	67.4	41.2	13.8	19.5	26.1
NII	86.3	16.3	49.0	23.7	28.4
Provisions	114.4	170.4	302.5	(66.0)	18.2
PAT	82.7	(57.8)	(188.8)	NA	42.4
<b>Operating Ratios (%)</b>					
Yield on advances	20.1	19.7	20.5	19.0	18.3
Cost of borrowings	13.2	13.2	11.9	11.7	11.6
NIM (on AuM)	7.9	7.3	9.1	8.9	8.8
Fee to disbursement	1.0	1.0	1.0	1.0	1.0
Cost/Income	59.7	72.6	59.8	59.4	57.0
Opex/ Avg AuM	5.9	7.2	7.09	6.7	6.30
Effective tax rate	33.8	34.2	33.0	33.5	33.5
RoA	2.2	0.6	(0.4)	1.7	1.9
RoE	22.4	5.1	(2.7)	10.4	12.9
RoTA (incl.off-balance sheet)	1.7	0.5	(0.4)	1.5	1.8
<b>Credit Quality Ratios (%)</b>					
Gross NPA	0.24	0.45	8.15	4.09	3.24
Net NPA	0.12	0.25	4.29	2.11	1.63
NPA coverage ratio	50.0	45.3	47.4	48.2	49.8
Credit cost	0.8	1.4	4.3	1.2	1.2
<b>Capital Adequacy Ratios (x)</b>					
Total CAR	16.8	24.1	27.5	24.3	21.8
Tier I	11.3	16.6	21.4	19.3	17.8
Tier II	5.5	7.6	6.1	5.0	3.9
Assets/equity (x)	10.3	8.4	6.6	6.3	6.7
<b>Per Share (Rs)</b>					
BVPS	102.9	171.7	204.1	225.0	255.8
Adjusted BVPS	102.0	169.5	167.0	201.6	233.6
EPS - basic	18.4	6.6	(4.6)	22.3	30.5
<b>Valuations Ratios</b>					
Price/BV (x)	2.8	1.8	1.5	2.1	1.8
Price/Adj. BV (x)	2.8	1.9	1.8	2.3	2.0
P/E (x)	15.8	47.8	NA	20.9	15.2

Source: Company, Centrum Research Estimates. FY16-18E have been valued on average market cap basis.

## Appendix A

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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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