

Satin Creditcare Network

Micro lending

Result Update

15 February 2018

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(%)
Net Income	1,212	922	32.9	1,206	2.8	1,218	3.3
Operating Profit	535	293	82.6	562	(4.9)	542	(1.4)
Provisions	174	48	264.6	371	(53.1)	298	(41.5)
Reported PAT	228	164	38.7	126	81.0	164	39.2
GNPA	3,948	166	NA	4,560	(13.4)	3,960	(0.3)
GNPA (%)	9.2	0.5	867bps	11.4	(226)bps	9.2	(1)bp
GLP	43,044	33,437	28.7	39,875	7.9	42,811	0.5

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
Price Performance (%)*		52 Wk H / L (Rs)	525.3/242.1
	1M	6M	1Yr
		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

- 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.

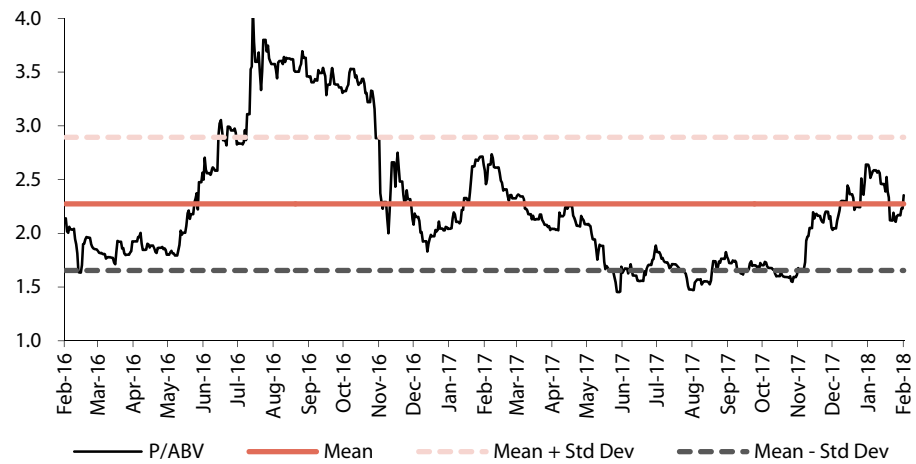
Sensitivity analysis and peer comparison

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
Income statement								
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
Net interest income	821	976	1,044	912	394	859	1,179	1,212
Non-interest income	29	17	31	10	54	61	27	45
Total income	850	993	1,075	922	448	920	1,206	1,257
Operating expenses	505	576	599	629	677	634	644	723
PPOP	344	417	476	293	(229)	286	562	534
Provisions	94	53	83	48	401	1,474	371	174
PBT	250	364	393	245	(630)	(1,188)	191	360
Tax expense	87	118	133	81	(205)	(408)	65	132
Profit after tax	163	246	260	164	(426)	(780)	126	228
Growth YoY (%)								
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
Asset quality (%)								
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
Net Interest Income	2,150	2,501	3,727	4,613	5,921
Non-Interest Income	536	914	1,104	1,215	1,482
Total Net Income	2,686	3,415	4,832	5,828	7,402
Total Operating Expenses	1,603	2,481	2,891	3,463	4,221
Employee expenses	884	1,568	1,878	2,281	2,821
Other Operating Expenses	719	913	1,013	1,182	1,401
Pre-provision Profit	1,083	934	1,941	2,365	3,181
Provisions & Contingencies	208	563	2,265	769	909
Profit Before Tax	875	372	(324)	1,595	2,271
Taxes	296	127	(107)	534	761
Profit after tax	579	245	(217)	1,061	1,511

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
Total Int Earning Assets	30,896	45,184	55,929	66,753	83,384
Fixed Assets	213	499	541	587	638
Other non-current assets	1,925	1,801	1,944	2,106	2,297
Total Assets	33,034	47,484	58,413	69,446	86,320
Interest Bearing Liabilities	27,483	38,804	44,168	52,783	66,580
Other non int bearing Liab	2,311	2,309	4,518	5,942	7,093
Total Liabilities	29,794	41,112	48,686	58,724	73,673
Equity	3,240	6,372	9,727	10,721	12,647
Total Liabilities	33,034	47,484	58,413	69,446	86,320

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
NIM	8.9	6.8	7.6	7.7	8.1
Other income	2.0	2.3	2.1	1.9	1.9
Total income	10.1	8.5	9.1	9.1	9.5
Operating expenses	6.0	6.2	5.5	5.4	5.4
PPoP	4.1	2.3	3.7	3.7	4.1
Provisions	0.8	1.4	4.3	1.2	1.2
PBT	3.3	0.9	(0.6)	2.5	2.9
Tax	1.1	0.3	(0.2)	0.8	1.0
RoA	2.2	0.6	(0.4)	1.7	1.9
Leverage	10.3	8.4	6.6	6.3	6.7
RoE	22.4	5.1	(2.7)	10.4	12.9

Source: Company, Centrum Research Estimates

Exhibit 8: Financial ratios

Y/E March	FY16	FY17	FY18E	FY19E	FY20E
Growth Ratios (%)					
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
Operating Ratios (%)					
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 (inld.off-balance sheet)	1.7	0.5	(0.4)	1.5	1.8
Credit Quality Ratios (%)					
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
Capital Adequacy Ratios (x)					
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
Per Share (Rs)					
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
Valuations Ratios					
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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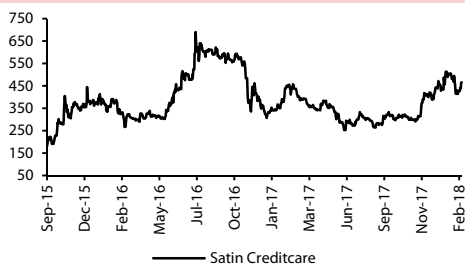
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Satin Creditcare price chart



Source: Bloomberg, Centrum Research

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Rating	Market cap < Rs20bn	Market cap > Rs20bn but < 100bn	Market cap > Rs100bn
Buy	Upside > 20%	Upside > 15%	Upside > 10%
Hold	Upside between -20% to +20%	Upside between -15% to +15%	Upside between -10% to +10%
Sell	Downside > 20%	Downside > 15%	Downside > 10%

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