

Well-positioned

We retain Buy on Satin Creditcare (SATIN) and revise our TP upwards to Rs590 (vs. Rs550 earlier). FY18 could well be characterised as the year of turnaround for SATIN as it placed greater emphasis at a) growth with better controls b) lower NPAs YoY and c) increased use of technology. We expect growth momentum to accelerate and will be driven by favourable sector dynamics, increasing share of repeat customers and penetration into newer geographies. NPAs remain a tad sticky and will thus see provisions remain elevated. We have factored the same into our estimates. Valuations at 1.6x FY20E ABV for an exit RoE of 13-14% remain attractive. Retain BUY.

- **Q4'18 –Strong quarter:** Standalone Q4'18 Nil at Rs1.47bn grew 21.4% YoY and was led by strong 40.6% YoY / 18.1% QoQ growth in AuM. Reported NIM stood at 13.2% (+108bps QoQ). With well contained costs, operating profit at Rs820mn grew 53.4% QoQ. Asset quality saw improvement with PAR-30 / PAR-90 portfolio down to 6% / 4% respectively (vs. 12% / 9% QoQ). GNPA at Rs2.3bn (declined 42.8% QoQ); NNPA stood at Rs1.3bn (2.6% of loans). Provisions for the quarter came in at Rs148mn (vs. our ests. of Rs268mn). Net profit thus stood at Rs465mn (vs. our ests. of Rs229mn). FY18 saw SATIN report net profit to the tune of Rs40.3mn (vs. our estimates of net loss of Rs217mn). The year saw SATIN w/off GNPA to the tune of Rs1.79bn; recovery-up-gradation should have been at ~Rs1.2bn. Cumulative NPA provisions are down to Rs951mn (vs. Rs2.46bn QoQ / up from Rs609mn YoY).
- **AuM growth accelerates; building accelerated provisions:** FY18 AuM / disbursements grew 40.6% YoY / 36.2% YoY and follows increased penetration into newer geographies coupled with continued focus at client addition. Bihar, West Bengal, Assam and Orissa now account for 33% of AuM (vs. 20% in FY17). Resultant, the share of exposure to UP market has reduced to 29.7% (vs.33.6% in FY17%). Q4'18 saw collection efficiency (CE) soften to 98% vs. 103% QoQ. We believe the same could be following challenges in recovery from pockets of Maharashtra and MP. With an element of under-provided portfolio (more so in the nature of hard-bucketing portfolio), we are building in elevated provisions for FY19E. We however draw comfort given a) CE at 98% (flat QoQ) for disbursements after Jan'2017 and b) 92% of districts accounting for less than 1% of portfolio (vs. 87.3% in FY17) – thus reducing concentration risk.
- **Earnings outlook:** FY18 could well be characterised as the year of turnaround for SATIN as it placed greater focus at a) growth with better controls b) lower NPAs and c) increased use of technology. Cashless disbursement account for 35% of total disbursements; 51% of branches have started cashless disbursement. AuM growth is set to accelerate given the wider penetration (in form of newer geographies) and higher share of repeat customers (62% of customers are repeat clients; 73% of AuM is to clients in 2nd cycle and above). We are building in 27% CAGR in AuM over FY18-20E. We are also factoring in elevated provisions, an outcome of certain sticky NPAs. Capital position remains strong with tier-I /CAR at 20.3% / 23.7% and will augment balance sheet growth.
- **Valuation, view and key risks:** We have revised our FY19E/FY20E estimates upwards following strong AuM growth, improved margins and profit (vs. our estimates of losses) for FY18. We remain convinced with SATIN business model and see RoE's inch to 13-14% levels by end-FY20E. RoA could well be in excess of 2.0%. Valuations at 1.6x FY20E ABV remain attractive. Retain BUY with TP at Rs590 (valued at 2.3x FY20E ABV). Key risks – lower than expected growth; elevated NPA's and thus the provisioning thereon.

Y/E Mar (Rs mn)	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ (%)	Q4FY18E	Var(%)
Net Income	1,550	448	246.3	1,257	23.3	1,324	17.1
Operating Profit	820	(229)	-	534	53.4	610	34.5
Provisions	148	401	(63.1)	174	(15.0)	268	(44.7)
Reported PAT	465	(426)	-	228	104.2	229	102.9
GNPA	2,257	5,225	(56.8)	3,948	(42.8)	3,398	(33.6)
GNPA (%)	4.4	12.7	(830bps)	9.2	(473bps)	7.3	(389bps)
GLP	50,848	36,168	40.6	43,044	18.1	46,748	8.8

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	62.3	169.5	2.4	0.6	5.1
FY18P	4,933	2,203	40	(83.5)	0.8	370.9	196.5	1.6	0.1	0.5
FY19E	6,257	2,869	1,122	-	23.5	17.4	231.0	1.8	1.7	10.0
FY20E	8,024	3,698	1,721	53.4	33.8	11.9	258.3	1.6	2.1	13.4

Source: Company, Centrum Research Estimate. Standalone. #denotes net interest income + other income. FY16-19E 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	Rs590	Key Data			
CMP*	Rs397	Bloomberg Code	SATININ		
Upside	48.6%	Curr Shares O/S (mn)	47.7		
Previous Target	Rs550	Diluted Shares O/S(mn)	47.7		
Previous Rating	Buy	Mkt Cap (Rsbn/USDmn)	18.9/280.5		
Price Performance (%)*		52 Wk H / L (Rs)	525.3/242.1		
	1M	6M	1Yr		
			5 Year H / L (Rs)	716.7/88.5	
SATININ	(1.9)	(4.3)	35.6	Daily Vol. (3M NSE Avg.)	71446
Nifty	(0.0)	5.0	11.6		

* as on 31 May 2018; Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

	Mar-18	Dec-17	Sep-17	Jun-17
Promoter	28.6	27.4	29.3	32.9
Institution	34.7	30.9	31.3	22.7
Others	36.8	41.7	39.5	44.4

Source: Company, * as on 31 May 2018

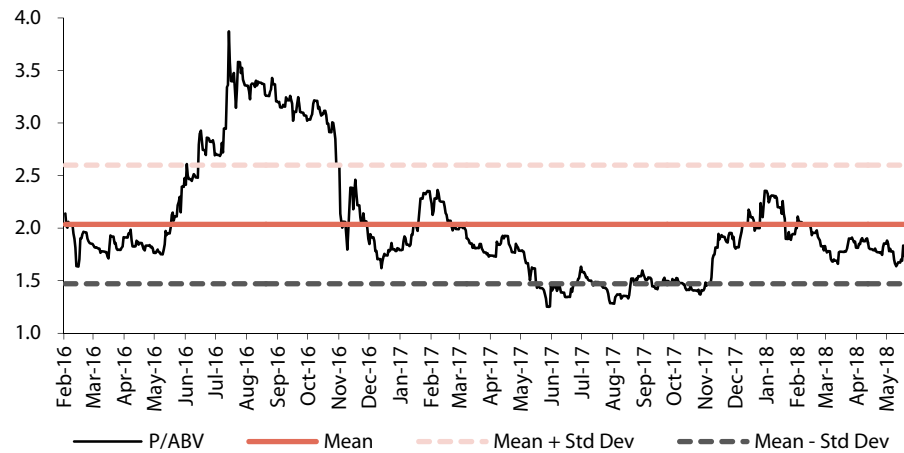
Sensitivity analysis and peer comparison

Exhibit 1: Sensitivity Analysis – impact of change in AuM and NIM on FY19 PBT

%	AuM					
	+ 10bps	+ 20bps	' Current level	- 10bps	- 20bps	
NIM	- 10bps	(3.5)	(4.5)	(2.6)	(1.6)	(0.6)
	- 5bps	(6.1)	(7.1)	(5.1)	(4.1)	(3.2)
	Current levels	(1.0)	(2.0)	-	1.0	2.0
	+ 5bps	1.6	0.6	2.6	3.5	4.5
	+ 10bps	4.1	3.2	5.1	6.1	6.1

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 % (FY18-FY20E)			PE (x)			RoA (%)			RoE (%)			P/BVPS (x)		
		NII + Oth inc	PPOP	PAT	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
SATIN*	18,929	27.5	29.6	553.3	370.9	17.4	11.9	0.1	1.7	2.1	0.5	10.0	13.4	1.4	1.7	1.5
Ujjivan*	47,343	23.6	39.8	566.1	587.0	20.3	14.6	0.1	2.1	2.3	0.4	12.5	15.2	2.4	2.4	2.1
BHAFIN	1,62,938	34.3	54.3	47.4	27.4	21.7	16.9	3.6	4.1	4.3	15.9	20.8	21.7	4.1	4.2	3.4
Equitas	55,750	26.7	68.2	204.5	163.2	31.0	19.1	0.3	1.3	1.6	1.4	7.3	11.2	2.3	2.2	2.1

Source: Bloomberg consensus, *Centrum Research Estimates. FY17-19E have been valued on average market cap basis.

Exhibit 4: Quarterly financials

(Rs mn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Income statement								
Interest earned	1,951	2,059	2,073	1,594	2,064	2,370	2,443	2,676
Interest expended	975	1,015	1,161	1,201	1,206	1,191	1,231	1,205
Net interest income	976	1,044	912	394	859	1,179	1,212	1,471
Non-interest income	17	31	10	54	61	27	45	79
Total income	993	1,075	922	448	920	1,206	1,257	1,550
Operating expenses	576	599	629	677	634	644	723	730
PPOP	417	476	293	(229)	286	562	534	820
Provisions	53	83	48	401	1,474	371	174	148
PBT	364	393	245	(630)	(1,188)	191	360	672
Tax expense	118	133	81	(205)	(408)	65	132	207
Profit after tax	246	260	164	(426)	(780)	126	228	465
Growth YoY (%)								
NII	83.3	75.9	34.6	(52.1)	(12.0)	12.9	32.9	273.7
Opex	63.9	65.4	63.7	33.9	10.1	7.5	14.8	7.9
PPOP	119.0	97.4	(4.8)	NA	(31.6)	18.2	82.6	-
PAT	103.8	80.3	9.5	NA	NA	(51.6)	38.6	-
Asset quality (%)								
GNPA	0.19	0.24	0.50	12.74	14.66	11.43	9.17	4.44
NNPA	0.09	0.12	0.25	10.61	9.73	5.95	3.67	2.62

Source: Company, Centrum Research

Financials (Standalone)

Exhibit 5: Income Statement

Y/E March (Rs mn)	FY16	FY17	FY18P	FY19E	FY20E
Interest Income	5,049	6,853	8,657	11,007	13,884
Interest Expense	2,899	4,351	4,833	5,986	7,521
Net Interest Income	2,150	2,501	3,824	5,021	6,363
Non-Interest Income	536	914	1,109	1,236	1,661
Total Net Income	2,686	3,415	4,933	6,257	8,024
Total Operating Expenses	1,603	2,481	2,730	3,388	4,326
Employee expenses	884	1,568	1,891	2,383	3,114
Other Operating Expenses	719	913	839	1,005	1,212
Pre-provision Profit	1,083	934	2,203	2,869	3,698
Provisions & Contingencies	208	563	2,167	1,182	1,110
Profit Before Tax	875	372	36	1,687	2,588
Taxes	296	127	(4)	565	867
Profit after tax	579	245	40	1,122	1,721

Source: Company, Centrum Research Estimates

Exhibit 6: Balance sheet

Y/E March (Rs mn)	FY16	FY17	FY18P	FY19E	FY20E
Other assets	7,900	11,739	8,518	13,747	15,433
Loans & Advances	22,995	32,773	44,323	55,301	70,010
Investments	1	703	2,969	768	768
Total Int Earning Assets	30,896	45,215	55,810	69,816	86,211
Fixed Assets	213	499	554	598	646
Other non-current assets	1,925	1,774	1,710	1,871	2,066
Total Assets	33,034	47,489	58,074	72,284	88,924
Interest Bearing Liabilities	27,483	38,804	46,255	57,113	70,609
Other non int bearing Liab	2,311	2,312	1,144	3,441	4,432
Total Liabilities	29,794	41,116	47,399	60,554	75,042
Equity	3,240	6,372	10,675	11,730	13,882
Total Liabilities	33,034	47,489	58,074	72,284	88,924

Source: Company, Centrum Research Estimates

Exhibit 7: DuPont analysis

(% of avg assets)	FY16	FY17	FY18P	FY19E	FY20E
Yield on assets	19.0	17.0	16.4	16.9	17.2
Cost of funds	11.8	11.5	9.5	9.6	9.8
Spreads	5.8	3.8	5.0	5.2	5.4
NIM	8.9	6.8	8.0	8.3	8.3
Other income	2.0	2.3	2.1	1.9	2.1
Total income	10.1	8.5	9.3	9.6	10.0
Operating expenses	6.0	6.2	5.2	5.2	5.4
PPoP	4.1	2.3	4.2	4.4	4.6
Provisions	0.8	1.4	4.1	1.8	1.4
PBT	3.3	0.9	0.1	2.6	3.2
Tax	1.1	0.3	0.0	0.9	1.1
RoA	2.2	0.6	0.1	1.7	2.1
Leverage	10.3	8.4	6.2	5.8	6.3
RoE	22.4	5.1	0.5	10.0	13.4

Source: Company, Centrum Research Estimates

Exhibit 8: Financial ratios

Y/E March	FY16	FY17	FY18P	FY19E	FY20E
Growth Ratios (%)					
Loans	55.6	42.5	35.2	24.8	26.6
AuM	52.8	10.6	40.6	26.1	27.1
Assets	64.3	43.8	22.3	24.5	23.0
Borrowings	67.4	41.2	19.2	23.5	23.6
NII	86.3	16.3	52.9	31.3	26.7
Provisions	114.4	170.4	285.1	(45.4)	(6.1)
PAT	82.7	(57.8)	(83.5)	-	53.4
Operating Ratios (%)					
Yield on advances	20.1	19.5	18.8	18.2	18.1
Cost of borrowings	13.2	13.2	11.4	11.6	11.8
NIM (on AuM)	7.9	7.3	8.8	8.7	8.7
Fee to disbursement	1.0	1.0	1.0	1.0	1.0
Cost/Income	59.7	72.6	55.3	54.1	53.9
Opex/ Avg AuM	5.9	7.2	6.3	5.9	5.9
Effective tax rate	33.8	34.2	33.0	33.5	33.5
Provisions	0.8	1.6	5.0	2.1	1.5
RoA	2.2	0.6	0.1	1.7	2.1
RoE	22.4	5.1	0.5	10.0	13.4
RoTA (incl.off-balance sheet)	1.7	0.5	0.1	1.5	1.9
Credit Quality Ratios (%)					
Gross NPA	0.3	0.5	5.9	2.4	2.0
Net NPA	0.2	0.3	3.4	1.3	1.0
NPA coverage ratio	50.0	45.3	42.0	46.0	50.3
Credit cost					
Capital Adequacy Ratios (x)					
Total CAR	16.8	24.1	23.7	21.7	19.9
Tier I	11.3	16.6	20.3	18.8	17.7
Tier II	5.5	7.6	3.4	2.9	2.3
Assets/equity (x)	10.3	8.4	6.2	5.8	6.3
Per Share (Rs)					
BVPS	102.9	171.7	224.0	246.1	272.2
Adjusted BVPS	102.0	169.5	196.5	231.0	258.3
EPS - basic	18.4	6.6	0.8	23.5	33.8
Valuations Ratios					
Price/BV (x)	2.8	2.4	1.4	1.7	1.5
Price/Adj. BV (x)	2.9	2.4	1.6	1.8	1.6
P/E (x)	15.8	62.3	370.9	17.4	11.9

Source: Company, Centrum Research Estimates. FY16-19E have been valued on average market cap basis.

Appendix A

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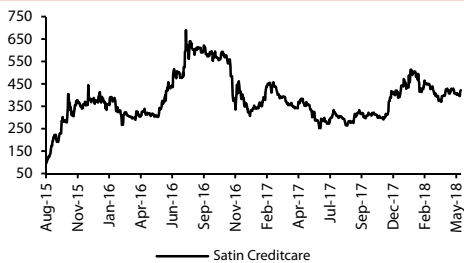
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Satin Creditcare price chart



Source: Bloomberg, Centrum Research

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2	Details of Disciplinary History of CBL	CBL has not been debarred/ suspended by SEBI or any other regulatory authority from accessing /dealing in securities market.
3	Registration status of CBL:	CBL is registered with SEBI as a Research Analyst (SEBI Registration No. INH000001469)

		Satin Creditcare Network	Ujjivan Financial Services
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10		No	Whether the Research Analyst has been engaged in market making activity of the subject company.

Rating Criteria

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%

Member (NSE and BSE)

Regn No.:

CAPITAL MARKET SEBI REGN. NO.: BSE: INB011454239
CAPITAL MARKET SEBI REGN. NO.: NSE: INB231454233
DERIVATIVES SEBI REGN. NO.: NSE: INF231454233
(TRADING & CLEARING MEMBER)
CURRENCY DERIVATIVES: MCX-SX INE261454230
CURRENCY DERIVATIVES:NSE (TM & SCM) – NSE 231454233

Depository Participant (DP)

CDSL DP ID: 120 – 12200
SEBI REGD NO.: CDSL : IN-DP-CDSL-661-2012
PORTFOLIO MANAGER
SEBI REGN NO.: INP000004383

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