YES SECURITIES
INSTITUTIONAL EQUITIES

Satin Creditcare Ltd. – Positive

Robust asset quality

Operational improvement on track

While AUM was flat sequentially due to higher run-off (disbursements grew 6% qoq), Satin continued to strengthen its portfolio and market position. Key vectors on which franchise improvement was visible were a) uptick in blended collection efficiency (CE), b) reduction in the PAR 90 portfolio and ECL, c) regional diversification with coverage now reaching 23 states and 360 districts , d) significant expansion in MFI customer base and a reduction in average loan ticket, e) impressive scale-up of IndusInd Bank BC tie-up along with MSME and housing finance portfolios, f) rising cashless disbursements with 100% branches enabled and g) sustained delivery of healthy RoA/RoE even after normalizing assignment income.

With liquidity available, Satin's disbursements could have been much higher in Q3 FY19, had it not been for a cautious stance adopted by the management. All productivity indicators appear sub-optimal due to substantial network expansion over the past couple of years and lower disbursements in areas impacted by demonetization. So, a little push can accelerate AUM growth. Satin had substantial liquidity of Rs19.2bn (31% of AUM) as of Q3 FY19 and CAR improved to 30% with a material decline in on-book MFI loans.

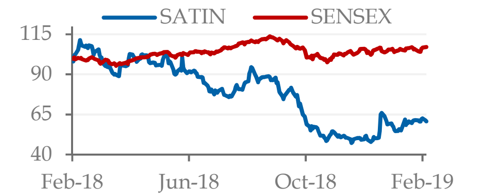
The rising cost of funds is not a challenge for Satin, as it generally gets transmitted to customers with a quarter's lag. Manning of new branches led to higher employee expenses but this should stabilize henceforth, and along with increase in AUM per Branch/LO should drive operating leverage. Focus on collection led to the CE improving, even on loans disbursed in 2017, and a meaningful recovery in written-off accounts.

CMP (Rs) 253

Stock data (As on Feb 05, 2019) | **Sector: Financials**

Sensex:	36,617
52 Week h/l (Rs)	495/183
Market cap (Rs mn)	12,365
Entp. value (Rs mn)	-
6m Avg t/o (Rs mn):	31
FV (Rs):	10
Div yield (%):	-
Bloomberg code:	SATIN IN
BSE code:	539404
NSE code:	SATIN

Stock performance



Shareholding pattern (As of Dec'18 end)

Promoter	26.7%
FII+DII	38.7%
Others	34.6%

Exhibit 1: Result table – Consol.

(Rs mn)	Q3 FY19	Q2 FY19	% qoq	Q3 FY18	% yoy
Operating Income	4,018	3,648	10.2	2,595	54.8
Interest Expenses	(1,663)	(1,685)	(1.3)	(1,326)	25.4
Net Interest Income	**2,355**	**1,963**	**20.0**	**1,269**	**85.6**
Other income	4	4	(7.0)	0	-
Total Income	**2,359**	**1,967**	**19.9**	**1,269**	**85.9**
Operating expenses	(1,090)	(1,062)	2.7	(903)	20.7
Provisions	(100)	(185)	(45.8)	374	-
PBT	1,169	720	62.2	740	57.9
Tax	(455)	(259)	75.4	(266)	71.1
PAT	**714**	**461**	**54.8**	**474**	**50.5**

Source: Company, YSL

COMPANY REPORT

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Exhibit 2: Key Ratios

(%)	Q3 FY19	Q2 FY19	% qoq	Q3 FY18	% yoy
Income/Avg.AUM*	25.9	23.9	2.0	22.1	3.8
Int Exp/Avg.AUM*	10.7	11.0	(0.3)	11.3	(0.6)
NII/Avg.AUM*	15.2	12.9	2.3	10.8	4.4
Cost/Income*	46.2	54.0	(7.8)	71.2	(25.0)
PPOP/Avg.AUM*	8.2	5.9	2.3	3.1	5.1
Prov/Avg.AUM*	0.6	1.2	(0.6)	(3.2)	3.8
PAT/Avg.AUM*	4.6	3.0	1.6	4.0	0.6
Gross NPA (PAR 90) ^	3.2	4.1	(0.9)	9.2	(6.0)
CAR^	30.1	25.2	4.8	23.3	6.8

Source: Company, YSL

*For the consol entity (Annualized); ^Reported for the stand-alone entity

Exhibit 3: Business Information

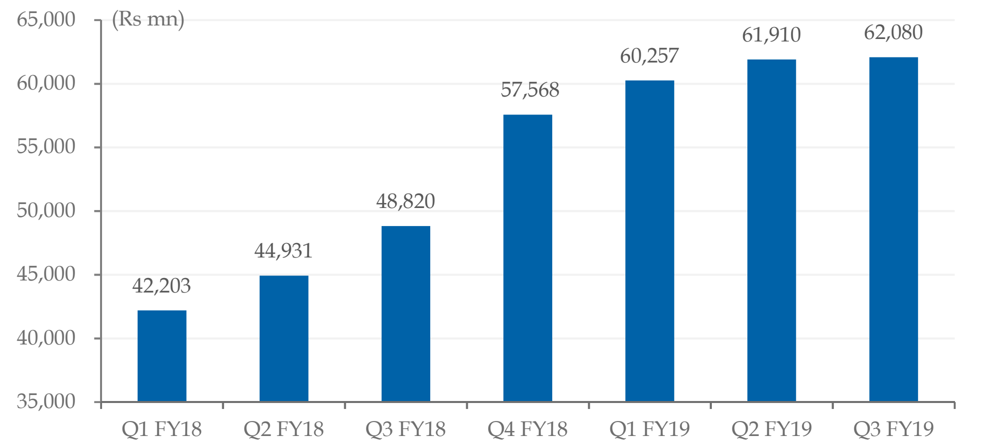
Particulars	Q3 FY19	Q2 FY19	% qoq	Q3 FY18	% yoy
AUM – (Rs mn)	**62,080**	**61,910**	**0.3**	**48,820**	**27.2**
MFI (SCNL)	54,180	54,560	(0.7)	42,360	27.9
MSME (SCNL)	1,710	1,050	62.9	680	151.5
TSL	5,730	6,040	(5.1)	5,770	(0.7)
SHFL	460	270	70.4	-	-
ATS – (Rs)					
MFI (SCNL)	26,000	27,000	(3.7)	30,000	(13.3)
MSME (SCNL)	2,260,000	1,100,000	105.5	900,000	151.1
TSL	26,900	26,700	0.7	23,600	14.0
SHFL	1,380,000	1,493,000	(7.6)	-	-
Branches – (No)					
SCNL	937	885	5.9	728	28.7
TSL	179	179	-	170	5.3
SHFL	3	2	50.0	-	-
Employees – (No)					
SCNL	10,538	9,579	10.0	7,121	48.0
TSL	1,335	1,352	(1.3)	1,259	6.0
SHFL	67	41	63.4	4	-

Source: Company, YSL

Profitability to improve further in FY20; valuation alluring

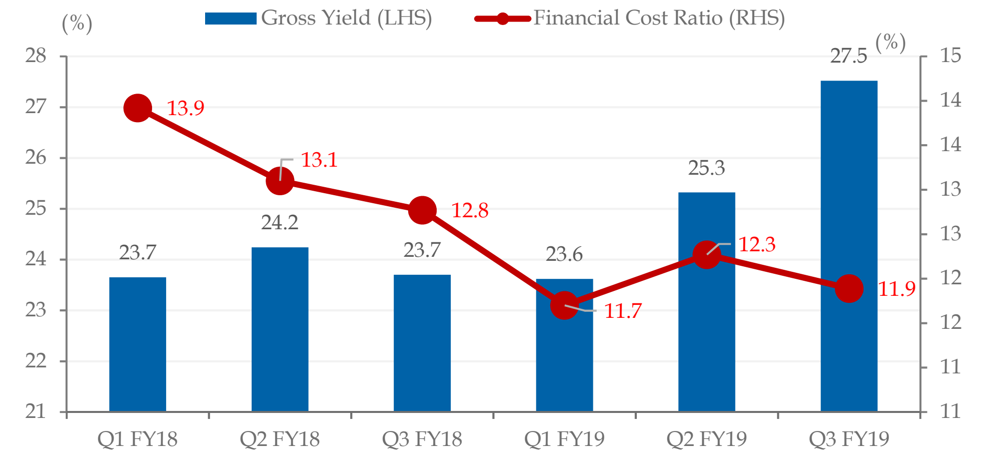
MFI disbursements will likely pick-up from the current quarter with stabilization of operating environment inducing management to gradually ease their cautious stance. Portfolios under the IIB tie-up, MSME financing and home loans will continue growing fast with improving market penetration. Overall, AUM is expected to grow by 25%+ in FY19 and 30%+ in FY20. While it is not a breath-taking speed of growth, it should be just good enough to drive-up revenue productivity. Notwithstanding the fervor around the general elections and announcements of loan waivers by many newly-elected state governments, the collection efficiency has kept improving which is heartening. So, a non-crisis credit cost looks like 1-1.5%. It is highly probable that Satin will deliver a higher RoA in FY20 in comparison to FY19. Based on our cursory Ind AS estimates for FY20, the stock in trading at <1x P/BV and 5.3x P/E.

Exhibit 4: Purposeful calibration of loan growth



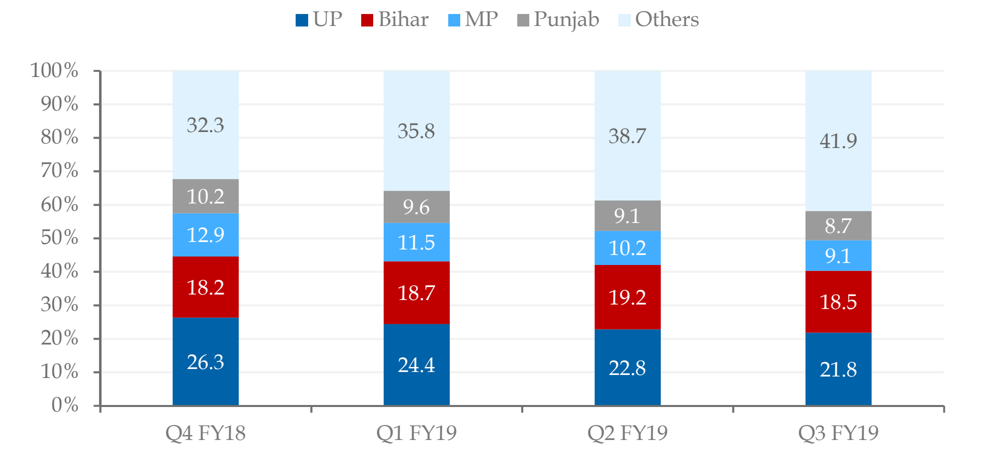
Source: Company, YSL

Exhibit 6: Expansion of spread driven by assignment income



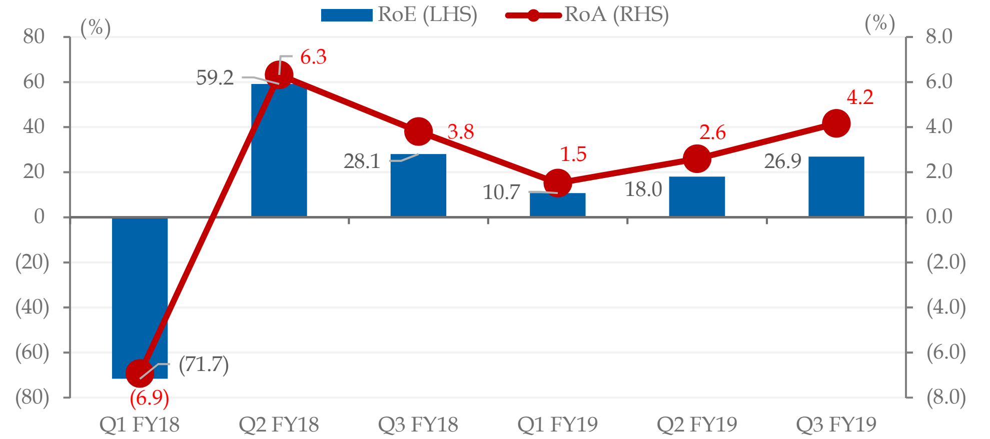
Source: Company, YSL; Note - Above data for stand-alone entity

Exhibit 5: Regional diversification of portfolio continues



Source: Company, YSL

Exhibit 7: RoA/RoE was healthy, even ex-assignment income



Source: Company, YSL; Note - Above data for stand-alone entity

CONFERENCE CALL HIGHLIGHTS

- Direct assignments of Rs7.55bn were done in Q3 FY19 and the life-time income on it was recognized upfront as per Ind AS
- Availability of liquidity did not restrain growth in Q3 FY19, rather the management purposely calibrated growth and enhanced its focus on portfolio quality and collections
- Collection efficiency (CE) improved from 97.7 to 98.2% on sequential basis, even on the portfolio disbursed in 2017. For the loans disbursed in 2018, the CE stands at robust 99.5% (level prevailing pre-demonetization). The blended CE has moved closer to 99%.
- The marginal cost of borrowing stands at 11.5% and a reasonable amount of funding is available. Satin can grow at 25-30% yoy even in the current liquidity environment.
- Margins earned on direct assignment and securitization transactions are 1.25-1.5% higher than the 9.5-10% earned on the on-book loans
- Group discipline remains intact, notwithstanding the noise of farm loan waivers, with about 85% of the centers recording 80%+ attendance in meetings. Even in the newer states or areas, the groups are being formed based on a social connect between members.
- Satin is expanding in the southern states through careful area/district selection, based on prevalent competition and CB data. There are a lot of territories in these states where MFIs don't have enough reach.
- Opex ratio will come-off once the new branches start gaining scale. Additionally, there is significant room to increase business in the branches that were impacted by demonetization.
- For cashless collections, the company is in the process of testing a few pilots. The success of these efforts and its implementation can bring down opex intensity of the business meaningfully.
- In MSME lending, Satin is primarily looking at the rural places where it already has distribution and outreach. There is a large potential to tap micro borrowers who have grown their businesses by taking multiple MFI loan cycles.
- IndusInd Bank tie-up is capital efficient and represents an on-tap funding for Satin. The arrangement was signed after the BFIL acquisition by the bank. TSL, the BC subsidiary, is likely to tie-up with more financial institutions for originating MFI loans.
- Considering the rapid scale-up of the IndusInd Bank tie-up and calibrated growth expectations, the MFI business may not require an equity infusion soon. However, the company would need capital over the medium term for infusion into its SME and housing subsidiaries.
- As per the management, after 5 years, about two-thirds of the AUM will be contributed by MFI loans and the remaining one-third would be non-MFI loans.
- Credit cost outlook would depend on the trending of CE. With the current CE expected to hold, the credit cost should stabilize at 0.5-1%. Loan rejection rate has increased as processes have been tightened.
- Unlike most other MFIs, Satin has been able to make credible progress in recovering money from the written-off accounts. Incremental recoveries from the written-off pool will lessen provisioning in the P&L.
- After having handled demonetization and the current tight liquidity scenario deftly, Satin believes that it has become better at handling crisis.

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ADD 5% to 15%

HOLD -15% to +5%

SELL > - 15%

NOT RATED

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