

## Broader story intact

We retain BUY on Satin Creditcare (SATIN) with TP revised lower to Rs390. Q2'19 results beat our estimates on revenue / earnings front. While PAR-90 at 4.1% (3.9% QoQ in Q1'19) saw an increase, collection efficiency trends have been improving and provides comfort on asset quality trends. AuM growth remains strong, capital position healthy (CAR at 25%+) and new initiatives – BC with IndusInd Bank and shoring non-MFI portfolio aimed at RoE expansion gaining traction. We remain convinced on SATIN and the broader story therein. The concerns around margin pressure (on back of increased borrowing cost) and elevated operating expenses (following geographical expansion), will impact RoEs in the near term. Valuations at 0.8x FY20E offer comfort. Retain BUY.

- **Q2'19 – Momentum continues:** Satin Q2'19 (under Ind-AS) beat our estimates on both revenue / earnings front. Even as growth in disbursement was modest (up mere 6.3% YoY); AuM grew 39.5% led by 14.1% growth in customer base. Operating expenses came in at Rs914mn (+41.7% YoY). Cost /AuM ratio inched to 6.7% (vs. 6.3% QoQ). PAR-90 saw a marginal increase to 4.1% (vs. 3.9% QoQ). However, on back of improved collection efficiency (CE), expected credit loss has reduced to 3.2% (vs. 4.1% as at FY18). CE on portfolio generated from Jan'18 is at 99.5%. Provisions for the quarter were at Rs184mn (lower to our ests); consecutively, net profit at Rs444mn beat our estimates. On a consolidated basis, AuM at Rs61.9bn grew 37.8% YoY; net profit stood at Rs461mn (vs. Rs275mn in Q1'19).
- **Business aspects gaining traction:** Q2'19 results were an extension of positive trends witnessed in the recent quarters. Business correspondent arrangement with IndusInd Bank (low on capital requirement), has gained further traction - Q2'19 AuM at Rs2.1bn (3% of consolidated AuM) vs. Rs474mn as at Q1'19. Management has indicated for 40% of disbursement by end-FY19E to be exclusive towards this tie-up. Concentration risk has been on decline with share of UP now at 22% of consolidated AuM (vs. 26.8% as at FY18). Satin has forayed into Southern markets (started with TN in Oct,2018). Efforts at cashless disbursements (aimed at containing costs) has seen further progress. 67% of total disbursement are now cashless; ~96% of branches now have cashless disbursement mechanism.
- **Liquidity position healthy; earnings outlook:** Liquidity position remains intact (~Rs11bn as at Q2'19); share of CP + NCD has been on a decline (combined at 9.1% vs. 18.6% as at FY18). While marginal cost of borrowing has risen by ~50-75bps, the positive ALM in <1-year bucket and ability to raise lending rates (though with a lag) will aid in mitigating any severe margin pressure. We however have built in NIM compression for FY19E given increased costs. On the operating costs side, we see it remain sticky given the increased employee count (+60.2% YoY) and foray into newer geographies and thus the breakeven therein. While ECL has been on a decline, we would watch for trend in overall CE. CE on portfolio on demand for the period Jan-Dec'17 was at 97.7%.
- **Valuation, view and key risks:** We have tweaked our estimates for FY19/FY20E on margins and costs front. Valuations have corrected on fears over liquidity and margin pressure. While we see margin pressure to prevail, liquidity position remains strong. We remain convinced with SATIN and the steady progression witnessed across key business aspects. Retain BUY with TP at Rs390 (valued at 1.6x FY20E ABV). The lowering of valuation multiple follows sub-12% RoE in the near term. Key risks –lower than expected growth; elevated NPAs and thus the provisioning thereon.

Y/E Mar (Rs mn)	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)	Q2FY19E	Var(%)
<b>Total income</b>	<b>3,469</b>	<b>2,351</b>	<b>47.5</b>	<b>3,096</b>	<b>12.0</b>	<b>3,349</b>	<b>3.6</b>
Net income	1,788	1,081	65.5	1,563	14.4	1,702	5.1
<b>Operating Profit</b>	<b>874</b>	<b>435</b>	<b>100.9</b>	<b>738</b>	<b>18.5</b>	<b>856</b>	<b>2.1</b>
Provisions	184	(711)	(125.9)	358	(48.6)	416	(55.7)
<b>Reported PAT</b>	<b>444</b>	<b>744</b>	<b>(40.3)</b>	<b>251</b>	<b>77.1</b>	<b>291</b>	<b>52.7</b>
PAR 90 (%)	4.1	11.4	(733bps)	3.9	17bps	-	-
<b>AuM</b>	<b>55,612</b>	<b>39,875</b>	<b>39.5</b>	<b>54,002</b>	<b>3.0</b>	<b>56,828</b>	<b>(2.1)</b>

Source: Company, Centrum Research\* standalone nos \* nos as per Ind-AS

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	877	245	(57.7)	6.6	62.2	169.5	2.4	0.6	5.1
FY18	4,934	2,188	40	(83.6)	0.9	372.2	200.1	1.6	0.1	0.5
FY19E	6,596	2,930	1,134	2,720.7	23.2	14.3	222.0	1.5	1.7	10.2
FY20E	8,465	3,670	1,483	30.8	29.3	6.7	248.8	0.8	1.8	11.8

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	Rs390	Key Data	
CMP*	Rs210	Bloomberg Code	SATININ
Upside	85.7%	Curr Shares O/S (mn)	47.7
Previous Target	Rs590	Diluted Shares O/S(mn)	47.7
Previous Rating	Buy	Mkt Cap (Rs bn/USDmn)	10/138.8
<b>Price Performance (%)*</b>		52 Wk H / L (Rs)	525.3/192.7
		5 Year H / L (Rs)	716.7/88.5
SATININ	(12.3)	(50.1)	(32.4)
Daily Vol. (3M NSE Avg.)			57812
NIFTY	1.0	(1.7)	4.9

\* as on 15 November 2018; Source: Bloomberg, Centrum Research

### Shareholding pattern (%)\*

	Sep-18	Jun-18	Mar-18	Dec-17
Promoter	26.7	28.6	28.6	27.4
Institution	30.9	31.3	34.7	30.9
Others	42.4	40.1	36.8	41.7

Source: Company, \* as on 15 November 2018

### Earnings revision

Particulars (Rs mn)	FY19E			FY20E		
	New	Old	Var (%)	New	Old	Var (%)
NII + Other income	6,596	6,564	0.5	8,465	8,602	(1.6)
PPOP	2,930	2,950	(0.7)	3,670	3,947	(7.0)
Reported PAT	1,134	1,147	(1.1)	1,483	1,792	(17.2)

Source: Centrum Research Estimates

Aalok Shah, aalok.shah@centrum.co.in; 91 22 4215 9075  
Gaurav Jani, gaurav.jani@centrum.co.in; 91 22 4215 9110

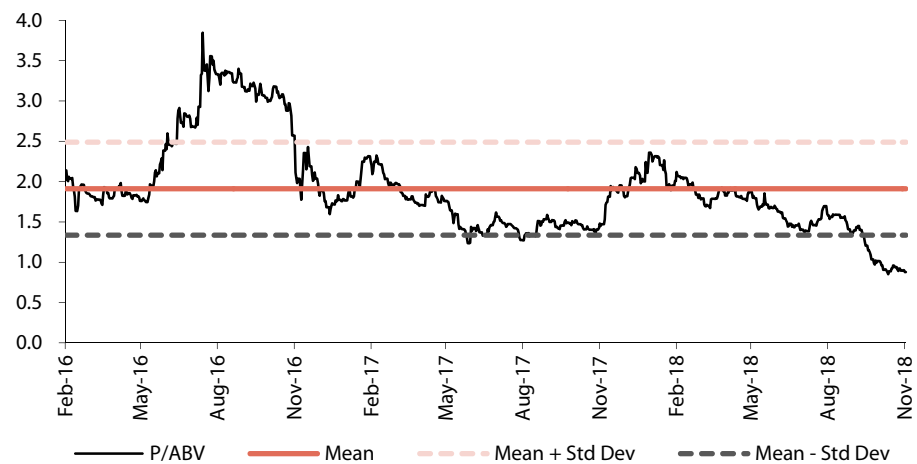
## Sensitivity analysis and peer comparison

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

%	AuM					
	+ 10bps	+ 20bps	' Current level	- 10bps	- 20bps	
NIM	- 10bps	(3.4)	(4.3)	(2.6)	(1.7)	(0.9)
	- 5bps	(6.0)	(6.9)	(5.2)	(4.3)	(3.4)
	Current levels	(0.9)	(1.7)	-	0.9	1.7
	+ 5bps	1.7	0.9	2.6	3.4	4.3
	+ 10bps	4.3	3.4	5.2	6.0	6.0

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*	9,988	31.0	29.5	-	-	14.3	6.7	0.1	1.7	1.8	0.5	10.2	11.8	1.4	1.4	0.7
Ujjivan*	28,352	26.8	31.7	-	-	23.3	10.7	0.1	1.6	1.8	0.4	9.7	12.9	2.4	2.2	1.3
Equitas	37,235	27.6	78.8	-	-	25.8	12.1	0.3	1.2	1.6	1.4	8.1	11.9	2.3	2.0	1.4
BHAFIN	1,31,832	31.4	46.9	43.2	27.4	22.3	14.4	3.6	4.5	4.2	15.9	19.7	20.5	4.1	4.1	2.8

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

**Exhibit 4: Quarterly financials**

(Rs mn)	Q3FY17	Q4FY17	Q1FY18 Ind-AS	Q2FY18 Ind-AS	Q3FY18	Q4FY18	Q1FY19 Ind-AS	Q2FY19 Ind-AS
<b>Income statement</b>								
Net interest income	912	394	936	1,053	1,212	1,471	1,512	1,472
Non-interest income	10	54	205	27	45	79	51	316
<b>Total income</b>	<b>922</b>	<b>448</b>	<b>1,141</b>	<b>1,081</b>	<b>1,257</b>	<b>1,550</b>	<b>1,563</b>	<b>1,788</b>
Operating expenses	629	677	630	645	723	730	825	914
<b>PPOP</b>	<b>293</b>	<b>(229)</b>	<b>511</b>	<b>435</b>	<b>534</b>	<b>820</b>	<b>738</b>	<b>874</b>
Provisions	48	401	1,775	(711)	174	148	358	184
<b>PBT</b>	<b>245</b>	<b>(630)</b>	<b>(1,264)</b>	<b>1,146</b>	<b>360</b>	<b>672</b>	<b>380</b>	<b>690</b>
Tax expense	81	(205)	(442)	402	132	207	129	246
<b>Profit after tax</b>	<b>164</b>	<b>(426)</b>	<b>(822)</b>	<b>744</b>	<b>228</b>	<b>465</b>	<b>251</b>	<b>444</b>
<b>Growth YoY (%)</b>								
NII	34.6	(52.1)	(4.1)	0.9	32.9	273.7	61.5	39.8
Opex	63.7	33.9	9.5	7.8	14.8	7.9	30.9	41.7
PAT	9.5	(360.4)	(434.4)	185.8	38.6	(209.3)	(130.5)	(40.3)
<b>Asset quality (%)</b>								
GNPA	0.5	12.7	14.7	11.4	9.2	4.4	3.9	4.1
NNPA	0.3	10.6	9.7	6.0	3.7	2.6	0.4	0.9

Source: Company, Centrum Research

## Financials (Standalone)

### Exhibit 5: Income Statement

Y/E March (Rs mn)	FY16 I-GAAP	FY17 I-GAAP	FY18 I-GAAP	FY19E Ind-AS	FY20E Ind-AS
<b>Net Income</b>	<b>2,686</b>	<b>3,415</b>	<b>4,934</b>	<b>6,596</b>	<b>8,465</b>
<b>Total Operating Expenses</b>	<b>1,603</b>	<b>2,538</b>	<b>2,745</b>	<b>3,666</b>	<b>4,795</b>
Employee expenses	884	1,568	1,891	2,686	3,667
Other Operating Expenses	719	970	854	979	1,128
<b>Pre-provision Profit</b>	<b>1,083</b>	<b>877</b>	<b>2,188</b>	<b>2,930</b>	<b>3,670</b>
Provisions & Contingencies	208	505	2,153	1,225	1,440
<b>Profit Before Tax</b>	<b>875</b>	<b>372</b>	<b>36</b>	<b>1,705</b>	<b>2,230</b>
Taxes	296	127	(4)	571	747
<b>Profit after tax</b>	<b>579</b>	<b>245</b>	<b>40</b>	<b>1,134</b>	<b>1,483</b>

Source: Company, Centrum Research Estimates

### Exhibit 6: Balance sheet

Y/E March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Other assets	7,900	11,760	8,535	13,767	15,454
Loans & Advances	22,995	32,751	44,304	57,878	75,530
Investments	1	703	2,969	768	768
<b>Total Int Earning Assets</b>	<b>30,896</b>	<b>45,215</b>	<b>55,809</b>	<b>72,413</b>	<b>91,751</b>
Fixed Assets	213	499	554	598	646
Other non-current assets	1,925	1,774	1,710	1,893	2,114
<b>Total Assets</b>	<b>33,034</b>	<b>47,488</b>	<b>58,073</b>	<b>74,904</b>	<b>94,511</b>
<b>Interest Bearing Liabilities</b>	<b>27,483</b>	<b>38,803</b>	<b>44,286</b>	<b>58,976</b>	<b>74,713</b>
Other non int bearing Liab	2,311	2,309	3,111	4,319	6,307
<b>Total Liabilities</b>	<b>29,794</b>	<b>41,112</b>	<b>47,398</b>	<b>63,296</b>	<b>81,020</b>
Equity	3,240	6,377	10,675	11,608	13,491
<b>Total Liabilities</b>	<b>33,034</b>	<b>47,488</b>	<b>58,073</b>	<b>74,904</b>	<b>94,511</b>

Source: Company, Centrum Research Estimates

### Exhibit 7: DuPont analysis

(% of avg assets)	FY16	FY17	FY18	FY19E	FY20E
Yield on assets	19.0	18.8	18.1	18.1	18.6
Cost of funds	11.8	11.5	9.7	9.9	10.3
Spreads	5.8	5.6	6.4	6.1	6.3
<b>NIM</b>	<b>8.9</b>	<b>8.7</b>	<b>9.8</b>	<b>9.5</b>	<b>9.4</b>
Other income	2.0	0.5	0.4	1.1	1.0
<b>Total income</b>	<b>10.1</b>	<b>8.5</b>	<b>9.3</b>	<b>9.9</b>	<b>10.0</b>
Operating expenses	6.0	6.3	5.2	5.5	5.7
<b>PPoP</b>	<b>4.1</b>	<b>2.2</b>	<b>4.1</b>	<b>4.4</b>	<b>4.3</b>
Provisions	0.8	1.3	4.1	1.8	1.7
<b>PBT</b>	<b>3.3</b>	<b>0.9</b>	<b>0.1</b>	<b>2.6</b>	<b>2.6</b>
Tax	1.1	0.3	0.0	0.9	0.9
<b>RoA</b>	<b>2.2</b>	<b>0.6</b>	<b>0.1</b>	<b>1.7</b>	<b>1.8</b>
Leverage	10.3	8.4	6.2	6.0	6.7
<b>RoE</b>	<b>22.4</b>	<b>5.1</b>	<b>0.5</b>	<b>10.2</b>	<b>11.8</b>

Source: Company, Centrum Research Estimates

### Exhibit 8: Financial ratios

Y/E March	FY16	FY17	FY18	FY19E	FY20E
<b>Growth Ratios (%)</b>					
Loans	55.6	42.4	35.3	30.6	30.5
AuM	52.8	10.6	40.6	30.0	30.7
Assets	64.3	43.8	22.3	29.0	26.2
Borrowings	67.4	41.2	14.1	33.2	26.7
NII	86.3	49.8	46.6	24.2	29.5
Provisions	114.4	142.7	326.2	(43.1)	17.5
PAT	82.7	(57.7)	(83.6)	-	30.8
<b>Operating Ratios (%)</b>					
Yield on advances	20.1	22.1	21.2	20.3	20.4
Cost of borrowings	13.2	13.2	11.7	12.1	12.3
NIM (on AuM)	7.9	9.4	10.9	10.0	10.0
Fee to disbursement	1.0	1.0	1.0	0.8	0.8
Cost/Income	59.7	74.3	55.6	55.6	56.6
Opex/ Avg AuM	5.9	7.4	6.3	6.3	6.3
Effective tax rate	33.8	34.1	33.0	33.5	33.5
Provisions	0.8	1.5	4.9	2.1	1.9
RoA	2.2	0.6	0.1	1.7	1.8
RoE	22.4	5.1	0.5	10.2	11.8
RoTA (incl.off-balance sheet)	1.7	0.5	0.1	1.5	1.6
<b>Credit Quality Ratios (%)</b>					
Gross NPA	0.3	0.5	5.6	2.4	2.0
Net NPA	0.1	0.3	3.2	1.3	1.2
NPA coverage ratio	50.0	45.3	43.7	44.8	44.4
Credit cost	0.8	1.3	4.1	1.8	1.7
<b>Capital Adequacy Ratios (x)</b>					
Total CAR	16.8	24.1	23.6	23.9	21.2
Tier I	11.3	16.6	20.3	18.0	16.5
Tier II	5.5	7.6	3.3	5.9	4.7
Assets/equity (x)	10.3	8.4	6.2	6.0	6.7
<b>Per Share (Rs)</b>					
BVPS	102.9	171.7	225.8	237.5	266.2
Adjusted BVPS	102.0	169.5	200.1	222.0	248.8
EPS - basic	18.4	6.6	0.9	23.2	29.3
<b>Valuations Ratios</b>					
Price/BV (x)	2.8	2.4	1.4	1.4	0.7
Price/Adj. BV (x)	2.9	2.4	1.6	1.5	0.8
P/E (x)	15.8	62.2	372.2	14.3	6.7

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

## Appendix A

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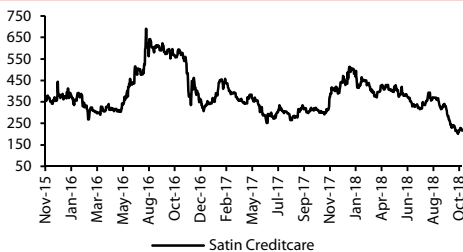
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### Satin Creditcare price chart



Source: Bloomberg, Centrum Research

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		Ujjivan Financial	Satin Credit care
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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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SEBI Registration No. INH000001469

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AMFI REGN No. ARN- 147569

#### Website: www.centrum.co.in

Investor Grievance Email ID: investor.grievances@centrum.co.in

#### Compliance Officer Details:

Ashok D Kadambi  
 (022) 4215 9937; Email ID: compliance@centrum.co.in

### Centrum Broking Ltd. (CIN :U67120MH1994PLC078125)

Registered Office Address	Corporate Office & Correspondence Address
Bombay Mutual Building , 2nd Floor, Dr. D. N. Road, Fort, Mumbai - 400 001	Centrum House 6th Floor, CST Road, Near Vidya Nagari Marg, Kalina, Santacruz (E), Mumbai 400 098. Tel: (022) 4215 9000 Fax: +91 22 4215 9344