

Collection efficiency improves; focusing on quality growth

We retain our Buy rating on Satin Creditcare and raise TP to Rs460 (Rs390 earlier). Q3FY19 results, adjusted for assignment income, were in-line with our estimates on revenue / earnings. Collection Efficiency (CE) has been rising, GNPA declining and AuM growth was healthy at ~30% YoY. Satin's focus now shifts to asset quality over growth, the key pillars being geographical and portfolio diversification, receding NPAs and further strengthening tie-ups. We remain convinced about Satin and its broader story. Valuation at 0.9x FY21E ABV for an exit RoE of 14.6% remains attractive.

- **Q3FY19 results (as per Ind-AS):** Nil at Rs1.37bn grew 25.3% YoY led by 29.9% YoY growth in AuM. Disbursements were up 6.4% YoY. Net income at Rs2.2bn (higher than our ests) included Rs683mn of assignment income. Satin has assigned Rs7.7bn of portfolio during Q3FY19 / ~Rs10bn of portfolio to date. Operating expenses at Rs931mn grew 24.6% YoY; Satin added 52 branches in Q3 / 123 branches in 9MFY19. CE for portfolio originated after Jan'18 continues to remain healthy at 99.5%; GNPA reduced to 3.2% (vs. 4% QoQ) and expected credit loss (ECL) has declined to 2% (vs. 3.2% QoQ). PAT came in at Rs700mn; adjusted for assignment income, it was in-line with our estimates. Consolidated AuM grew 27.2% YoY; PAT at Rs710mn was up 50.6% YoY.
- **Core pillars of growth:** Management highlighted its focus on the key areas of a) geographical expansion, b) portfolio diversification, c) asset quality and d) strategic partnership with financial institutions. It has operations in 23 states; TN, Karnataka and Puducherry were added in Q3. Exposure to UP has declined to <22% of overall AuM. On the portfolio front, the BC model, housing finance and subsidiary (Taraashna) have gained further traction. Asset quality has improved, as evident in a) reduced PAR portfolio, b) further decline in expected credit loss and c) Rs115mn of recovery from w/off accounts. Satin is holding Rs1.14bn of provisions against Rs850mn of overdue portfolio. Efforts at cashless disbursement have gained momentum – 70% of total disbursements are now cashless; 100% of branches now have cashless disbursement mechanism.
- **Earnings improvement expected:** In an otherwise challenging quarter, Satin reported stable borrowing costs at 11.9% vs. 12.3% QoQ and sufficient liquidity. Attention has shifted to asset quality over growth. One of the possible reasons for the same is given the upcoming general elections and its impact on Satin / entire MFI sector. Growth drivers are in place; the improved franchise (both from a reach and processes point of view) and strong capital (CAR at 30%) will augur well from an overall growth perspective. We are building in 30.2% CAGR in AuM over FY18-21E. CE on portfolio after Jan'18 has been on a rise and as the legacy portfolio runs-down; overall CE is set to improve further. We see RoA / RoE scale to 2.0% / 14.6% levels by end-FY21E.
- **Valuation and risks:** We have tweaked our income / credit cost estimates for FY19/FY20E. We remain convinced about Satin due to the steady progression witnessed across key business parameters. Roll our valuation to FY21E; retain Buy and raise TP to Rs460 (valued at 1.6x FY21E ABV). Risks to our call include lower-than-expected growth, margin compression, and elevated NPAs.

| Y/E Mar (Rs mn) | Q3FY19 | Q3FY18 | YoY (%) | Q2FY19 | QoQ (%) | Q3FY19E | Var(%) |
|-------------------------|---------------|---------------|--------------|---------------|-------------|---------------|--------------|
| Net income | 2,179 | 1,132 | 92.4 | 1,788 | 21.8 | 1,517 | 43.6 |
| Net interest income | 1,365 | 1,089 | 25.3 | 1,472 | (7.3) | 1,466 | (6.9) |
| Operating Profit | 1,248 | 385 | 224.2 | 874 | 42.8 | 580 | 115.1 |
| Provisions | 99 | (374) | (126.6) | 184 | (45.9) | 181 | (44.9) |
| Reported PAT | 700 | 488 | 43.4 | 444 | 57.7 | 257 | 172.2 |
| PAR 90(%) | 3.2 | 9.2 | (596bps) | 4.1 | (89bps) | - | - |
| AuM | 55,900 | 43,044 | 29.9 | 55,612 | 0.5 | 54,587 | 2.4 |

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

| Target Price | Rs460 | Key Data | |
|-------------------------------|--------------------|--------------------------|------------|
| CMP* | Rs254 | Bloomberg Code | SATININ |
| Upside | 81% | Curr Shares O/S (mn) | 47.7 |
| Previous Target | Rs390 | Diluted Shares O/S(mn) | 47.7 |
| Previous Rating | Buy | Mkt Cap (Rs bn/USDmn) | 12.1/169.5 |
| Price Performance (%)* | | 52 Wk H / L (Rs) | 495.3/183 |
| | | 5 Year H / L (Rs) | 716.7/88 |
| SATININ | 11.6 (28.2) (40.9) | Daily Vol. (3M NSE Avg.) | |
| NIFTY | 1.9 (3.8) 2.5 | | |

* as on 5 February 2019; Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

| | Dec-18 | Sep-18 | Jun-18 | Mar-18 |
|-------------|--------|--------|--------|--------|
| Promoter | 22.8 | 26.7 | 28.6 | 28.6 |
| Institution | 35.5 | 30.9 | 31.3 | 34.7 |
| Others | 41.7 | 42.4 | 40.1 | 36.8 |

Source: Company, * as on 5 February 2019

Earnings revision

| Particulars (Rs mn) | FY19E | | | FY20E | | |
|---------------------|-------|-------|---------|-------|-------|---------|
| | New | Old | Var (%) | New | Old | Var (%) |
| Nil + Other income | 6,997 | 6,596 | 6.1 | 8,305 | 8,465 | (1.9) |
| PPOP | 3,331 | 2,930 | 13.7 | 3,510 | 3,670 | (4.4) |
| Reported PAT | 1,644 | 1,134 | 45.0 | 1,637 | 1,483 | 10.4 |

Source: Centrum Research Estimates

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| 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 (%) |
|-----------------|-------------|-------|---------|---------|----------|---------|-------------|--------------|---------|---------|
| 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 | 6,997 | 3,331 | 1,644 | - | 33.6 | 9.0 | 218.8 | 1.4 | 2.6 | 14.7 |
| FY20E | 8,305 | 3,510 | 1,637 | (0.4) | 32.3 | 7.6 | 238.8 | 1.0 | 2.1 | 13.2 |
| FY21E | 10,556 | 4,250 | 2,016 | 23.1 | 39.8 | 6.1 | 286.6 | 0.9 | 2.0 | 14.6 |

Source: Company, Centrum Research Estimate. Standalone. #denotes net interest income + other income. FY17-19E have been valued on average market cap basis.

Concall Takeaways

On operations

- The company added 52 branches in the quarter and 123 branches in 9MFY19.
- It started operations in southern India – Tamil Nadu, Karnataka and Puducherry. Management is not witnessing any competitive pressures in its area of operations as there are still underpenetrated areas in South India.
- UP exposure is down to 22% of consolidated AuM (vs 34.7% in Q3FY18).

On asset quality

- Attendance at centre meetings has improved and ~80% of centres have ~85% attendance.
- Of the total portfolio, 78% is towards loans originated after Jan'18 and CE on the same is 99.5%.
- In 9MFY18 the recovery from the written-off accounts was Rs115mn.

P&L

- The quantum of assignment was Rs7.6bn and the entire income of Rs680mn on this portfolio was up-fronted as per Ind-AS norms in Q3FY19.
- The yield on the securitised portfolio is 125-150bps higher than the on-book yield.
- In terms of borrowing cost, the blended marginal cost of funds is 11.5%.

New initiatives

- Satin has received the license to start its SME business through its subsidiary, Satin Finserv. The company is planning to expand in rural areas where ticket sizes are lower. Growing at 25-30% in the SME business will not be a challenge for Satin.
- Around 40% of branches are directed to be working on the BC model for Indusind Bank. This will entail lower capital consumption in future and would not necessitate capital dilution at regular intervals as was the case in the past.

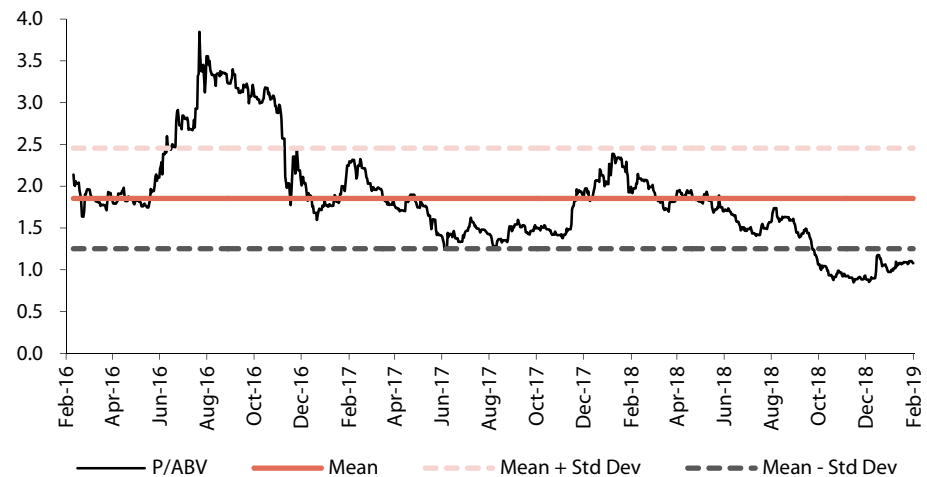
Sensitivity analysis and peer comparison

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

| % | AuM | | | | | |
|-----|----------------|---------|-----------------|---------|---------|-------|
| | + 10bps | + 20bps | ' Current level | - 10bps | - 20bps | |
| NIM | - 10bps | (3.0) | (3.7) | (2.3) | (1.6) | (0.9) |
| | - 5bps | (5.3) | (6.0) | (4.6) | (3.9) | (3.2) |
| | Current levels | (0.7) | (1.4) | - | 0.7 | 1.4 |
| | + 5bps | 1.6 | 0.9 | 2.3 | 3.0 | 3.7 |
| | + 10bps | 3.9 | 3.2 | 4.6 | 5.3 | 5.3 |

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 % (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* | 12,250 | 29.7 | 26.6 | - | 53.8 | - | 7.6 | 0.1 | 2.6 | 2.1 | 0.5 | 14.7 | 13.2 | 1.4 | 1.3 | 0.9 |
| Ujjivan* | 33,940 | 29.5 | 27.9 | - | - | 20.7 | 7.0 | 0.1 | 1.6 | 1.7 | 0.4 | 10.2 | 12.2 | 2.4 | 2.0 | 1.6 |
| Equitas | 41,230 | 40.8 | - | - | - | 23.0 | 12.9 | 0.3 | 1.3 | 1.6 | 1.4 | 8.4 | 12.2 | 2.3 | 1.9 | 1.5 |
| BHAFIN | 131,526 | 55.5 | 81.9 | 46.7 | 27.5 | 18.8 | 13.2 | 4.2 | 4.8 | 4.4 | 16.7 | 21.2 | 21.0 | 4.2 | 4.5 | 3.1 |

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

Exhibit 4: Quarterly financials

| (Rs mn) | Q4FY17 | Q1FY18 Ind-AS | Q2FY18 Ind-AS | Q3FY18 Ind-AS | Q4FY18 | Q1FY19 Ind-AS | Q2FY19 Ind-AS | Q3FY19 Ind-AS |
|--------------------------|--------------|----------------|---------------|---------------|--------------|---------------|---------------|---------------|
| Income statement | | | | | | | | |
| Net interest income | 394 | 936 | 1,053 | 1,089 | 1,471 | 1,512 | 1,472 | 1,365 |
| Non-interest income | 54 | 205 | 27 | 43 | 79 | 51 | 316 | 814 |
| Total income | 448 | 1,141 | 1,081 | 1,132 | 1,550 | 1,563 | 1,788 | 2,179 |
| Operating expenses | 677 | 630 | 645 | 747 | 730 | 825 | 914 | 931 |
| PPOP | (229) | 511 | 435 | 385 | 820 | 738 | 874 | 1,248 |
| Provisions | 401 | 1,775 | (711) | (374) | 148 | 358 | 184 | 99 |
| PBT | (630) | (1,264) | 1,146 | 759 | 672 | 380 | 690 | 1,149 |
| Tax expense | (205) | (442) | 402 | 179 | 207 | 129 | 246 | 449 |
| Profit after tax | (426) | (822) | 744 | 488 | 465 | 251 | 444 | 700 |
| Growth YoY (%) | | | | | | | | |
| NII | (52.1) | (4.1) | 0.9 | 32.9 | 273.7 | 61.5 | 39.8 | 25.3 |
| Opex | 33.9 | 9.5 | 7.8 | 14.8 | 7.9 | 30.9 | 41.7 | 24.6 |
| PAT | (360.4) | (434.4) | 185.8 | 38.6 | (209.3) | (130.5) | (40.3) | 224.2 |
| Asset quality (%) | | | | | | | | |
| GNPA | 12.7 | 14.7 | 11.4 | 9.2 | 4.4 | 3.9 | 4.1 | 3.2 |
| NNPA | 10.6 | 9.7 | 6.0 | 3.7 | 2.6 | 0.4 | 0.9 | 0.9 |

Source: Company, Centrum Research

Financials (Standalone)

Exhibit 5: Income Statement

| Y/E March (Rs mn) | FY17 I-GAAP | FY18 I-GAAP | FY19E Ind-AS | FY20E Ind-AS | FY21E Ind-AS |
|---------------------------------|----------------|----------------|-----------------|-----------------|-----------------|
| Net Income | 3,415 | 4,934 | 6,997 | 8,305 | 10,556 |
| Total Operating Expenses | 2,538 | 2,745 | 3,666 | 4,795 | 6,306 |
| Employee expenses | 1,568 | 1,891 | 2,686 | 3,667 | 5,006 |
| Other Operating Expenses | 970 | 854 | 979 | 1,128 | 1,301 |
| Pre-provision Profit | 877 | 2,188 | 3,331 | 3,510 | 4,250 |
| Provisions & Contingencies | 505 | 2,153 | 859 | 1,048 | 1,218 |
| Profit Before Tax | 372 | 36 | 2,472 | 2,462 | 3,032 |
| Taxes | 127 | (4) | 828 | 825 | 1,016 |
| Profit after tax | 245 | 40 | 1,644 | 1,637 | 2,016 |

Source: Company, Centrum Research Estimates

Exhibit 6: Balance sheet

| Y/E March (Rs mn) | FY17 | FY18 | FY19E | FY20E | FY21E |
|-------------------------------------|---------------|---------------|---------------|---------------|----------------|
| Other assets | 11,760 | 8,535 | 13,286 | 14,466 | 17,422 |
| Loans & Advances | 32,751 | 44,304 | 53,978 | 69,649 | 91,848 |
| Investments | 703 | 2,969 | 768 | 768 | 768 |
| Total Int Earning Assets | 45,215 | 55,809 | 68,032 | 84,882 | 110,038 |
| Fixed Assets | 499 | 554 | 598 | 646 | 700 |
| Other non-current assets | 1,774 | 1,710 | 1,859 | 2,063 | 2,327 |
| Total Assets | 47,488 | 58,073 | 70,489 | 87,592 | 113,065 |
| Interest Bearing Liabilities | 38,803 | 44,286 | 54,622 | 68,813 | 91,849 |
| Other non int bearing Liab | 2,309 | 3,111 | 4,210 | 5,627 | 6,695 |
| Total Liabilities | 41,112 | 47,398 | 58,832 | 74,440 | 98,544 |
| Equity | 6,377 | 10,675 | 11,657 | 13,152 | 14,521 |
| Total Liabilities | 47,488 | 58,073 | 70,489 | 87,592 | 113,065 |

Source: Company, Centrum Research Estimates

Exhibit 7: DuPont analysis

| (% of avg assets) | FY17 | FY18 | FY19E | FY20E | FY21E |
|---------------------|------------|------------|-------------|-------------|-------------|
| Yield on assets | 18.8 | 18.1 | 19.0 | 19.0 | 19.6 |
| Cost of funds | 11.5 | 9.7 | 9.8 | 10.2 | 10.7 |
| Spreads | 5.6 | 6.4 | 6.9 | 6.7 | 7.0 |
| NIM | 8.7 | 9.8 | 10.6 | 10.0 | 10.0 |
| Other income | 0.5 | 0.4 | 1.1 | 1.1 | 0.9 |
| Total income | 8.5 | 9.3 | 10.9 | 10.5 | 10.5 |
| Operating expenses | 6.3 | 5.2 | 5.7 | 6.1 | 6.3 |
| PPoP | 2.2 | 4.1 | 5.2 | 4.4 | 4.2 |
| Provisions | 1.3 | 4.1 | 1.3 | 1.3 | 1.2 |
| PBT | 0.9 | 0.1 | 3.8 | 3.1 | 3.0 |
| Tax | 0.3 | 0.0 | 1.3 | 1.0 | 1.0 |
| RoA | 0.6 | 0.1 | 2.6 | 2.1 | 2.0 |
| Leverage | 8.4 | 6.2 | 5.8 | 6.4 | 7.3 |
| RoE | 5.1 | 0.5 | 14.7 | 13.2 | 14.6 |

Source: Company, Centrum Research Estimates

Exhibit 8: Financial ratios

| Y/E March | FY17 | FY18 | FY19E | FY20E | FY21E |
|------------------------------------|--------|--------|--------|-------|-------|
| Growth Ratios (%) | | | | | |
| Loans | 42.4 | 35.3 | 21.8 | 29.0 | 31.9 |
| AuM | 10.6 | 40.6 | 28.5 | 30.6 | 31.5 |
| Assets | 43.8 | 22.3 | 21.4 | 24.3 | 29.1 |
| Borrowings | 41.2 | 14.1 | 23.3 | 26.0 | 33.5 |
| NII | 49.8 | 46.6 | 33.0 | 19.0 | 28.5 |
| Provisions | 142.7 | 326.2 | (60.1) | 22.0 | 16.2 |
| PAT | (57.7) | (83.6) | - | (0.4) | 23.1 |
| Operating Ratios (%) | | | | | |
| Yield on advances | 22.1 | 21.2 | 19.9 | 20.0 | 20.0 |
| Cost of borrowings | 13.2 | 11.7 | 12.0 | 12.3 | 12.5 |
| NIM (on AuM) | 9.4 | 10.9 | 10.8 | 9.9 | 9.7 |
| Fee to disbursement | 1.0 | 1.0 | 0.8 | 0.8 | 0.8 |
| Cost/Income | 74.3 | 55.6 | 52.4 | 57.7 | 59.7 |
| Opex/ Avg AuM | 7.4 | 6.3 | 6.3 | 6.4 | 6.4 |
| Effective tax rate | 34.1 | 33.0 | 33.5 | 33.5 | 33.5 |
| Provisions | 1.5 | 4.9 | 1.5 | 1.4 | 1.2 |
| RoA | 0.6 | 0.1 | 2.6 | 2.1 | 2.0 |
| RoE | 5.1 | 0.5 | 14.7 | 13.2 | 14.6 |
| RoTA (incl. off-balance sheet) | 0.5 | 0.1 | 2.2 | 1.8 | 1.7 |
| Credit Quality Ratios (%) | | | | | |
| Gross NPA | 0.5 | 5.6 | 2.5 | 2.5 | 2.5 |
| Net NPA | 0.3 | 3.2 | 1.8 | 1.5 | 1.5 |
| NPA coverage ratio | 45.3 | 43.7 | 28.0 | 38.7 | 39.6 |
| Credit cost | 1.3 | 4.1 | 1.3 | 1.3 | 1.2 |
| Capital Adequacy Ratios (x) | | | | | |
| Total CAR | 24.1 | 23.6 | 29.6 | 25.9 | 21.5 |
| Tier I | 16.6 | 20.3 | 19.6 | 17.8 | 15.3 |
| Tier II | 7.6 | 3.3 | 10.0 | 8.0 | 6.2 |
| Assets/equity (x) | 8.4 | 6.2 | 5.8 | 6.4 | 7.3 |
| Per Share (Rs) | | | | | |
| BVPS | 171.7 | 225.8 | 238.5 | 259.5 | 286.6 |
| Adjusted BVPS | 169.5 | 200.1 | 218.8 | 238.8 | 286.6 |
| EPS - basic | 6.6 | 0.9 | 33.6 | 32.3 | 39.8 |
| Valuations Ratios | | | | | |
| Price/BV (x) | 2.4 | 1.4 | 1.3 | 0.9 | 0.9 |
| Price/Adj. BV (x) | 2.4 | 1.6 | 1.4 | 1.0 | 0.9 |
| P/E (x) | 62.2 | NA | 9.0 | 7.6 | 6.1 |

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

Appendix A

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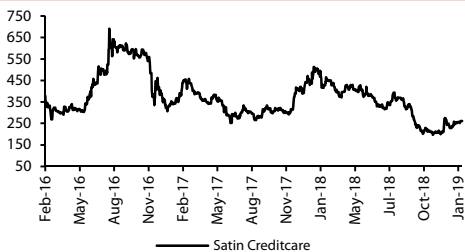
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Satin Creditcare price chart



Source: Bloomberg, Centrum Research

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| | | |
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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% |
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