

Satin Creditcare Network

Collection efficiency improves; focusing on quality

We remain convinced about Satin Creditcare and its broader story. Collection Efficiency (CE) has been rising, GNPA declining and AuM growth is healthy. Satin's focus is shifting to asset quality over growth, the key pillars being geographical and portfolio diversification, receding NPAs and further strengthening strategic tie-ups. Q4FY19 PPOP and PAT were above our estimates. We retain our Buy rating on Satin and revise TP to Rs420 (Rs460 earlier). Valuation at 0.9x FY21E ABV for an exit RoE of 19.8% remains attractive.

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. Satin has operations in 22 states. Exposure to UP has declined to <22% of overall AuM. On the portfolio front, the BC model (Taraashna), Satin Housing Finance and Satin Finserv have gained further traction. Asset quality has improved, as evident in a) declining PAR (portfolio at risk) metrics, b) further decline in expected credit loss. Efforts at cashless disbursement have gained momentum - 100% of branches now have cashless disbursement mechanism.

Q4FY19 results

While NII came in lower than our estimates, total income at Rs1.79bn grew 34% YoY led by fairly healthy 25.4% YoY growth in AuM. Satin has assigned Rs3.9bn of portfolio during Q4FY19 / ~Rs12.8bn of portfolio to date. Operating expenses at Rs1.07bn grew 49% YoY; Satin added 45 branches in Q4 / 168 branches in FY19. PPOP and PAT at Rs 726mn/Rs 555mn were above our estimates. Collection efficiency (CE) for portfolio originated after Jan'18 continues to remain healthy at 99.5%; GNPA reduced to 2.9% (vs. 3.2% QoQ) and expected credit loss (ECL) has declined to 1.6% (vs. 2% QoQ). PAT came in at Rs555mn and was up 35% YoY.

Earnings improvement expected

In a challenging quarter for NBFCs, Satin's borrowing costs rose to 12.5% (calc.) vs. 12.1% (calc.) QoQ, but liquidity is sufficient. Attention has been shifting to asset quality over growth. Growth drivers are in place; the improved franchise (both from a reach and processes point of view) and strong capital base (CRAR at 28.5%) will augur well from an overall growth perspective. We are building in 29.3% CAGR in AuM over FY19-21E. CE on the 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 3.1% / 19.8% levels by end-FY21E.

Valuation and risks

We have slightly lowered our AUM growth estimates for FY20/FY21E. We remain convinced about Satin due to the steady progression being witnessed across key business parameters. We retain Buy and revise TP to Rs420 (valued at 1.5x FY21E ABV, from 1.6x earlier). Risks to our call include lower-than-expected AUM growth, margin compression, and elevated NPAs.

Financial and valuation summary

| YE Mar (Rs mn) | Q4FY19 | Q4FY18 | YoY (%) | Q3FY19 | QoQ (%) | FY19P | FY20E | FY21E |
|----------------|--------|--------|---------|--------|---------|-------|-------|-------|
| NII | 1,065 | 1,273 | (16.3) | 1,356 | (21.4) | 5405 | 7197 | 9393 |
| PPoP | 726 | 623 | 16.6 | 1,239 | (41.4) | 3577 | 4381 | 5532 |
| Provisions | (121) | (2) | 5708.6 | 99 | (221.9) | 520 | 968 | 1147 |
| PAT | 555 | 411 | 34.8 | 700 | (20.8) | 1950 | 2287 | 2938 |
| AUM growth (%) | 14.0 | 18.1 | (410.5) | 0.5 | 1350.7 | 25.4 | 30.3 | 27.8 |
| NIM (%) | 7.1 | 10.8 | (372.4) | 9.7 | (260.3) | 9.4 | 9.8 | 9.9 |
| C / I (%) | 59.5 | 53.4 | 605.8 | 42.3 | 1713.6 | 51.3 | 53.5 | 53.5 |
| GNPA (%) | 3.1 | 4.4 | (130.2) | 3.2 | (7.2) | 3.0 | 2.5 | 2.8 |
| RoA (%) | 3.3 | 2.8 | 52.0 | 4.2 | (87.0) | 3.0 | 3.1 | 3.1 |
| RoE (%) | 20.0 | 18.9 | 108.0 | 26.9 | (695.0) | 19.1 | 18.1 | 19.8 |

Source: Company, Centrum Research estimates

Please see Appendix for analyst certifications and all other important disclosures.

Result Update

India I Diversified Financials

9 May 2019

Buy

Target Price: Rs420

Price: Rs303

Forecast return: 39%

Institutional Research

Market Data

| | |
|-----------------------|-----------|
| Bloomberg: | SATIN IN |
| 52 week H/L: | Rs440/183 |
| Market cap: | Rs15bn |
| Shares outstanding: | 48mn |
| Free float: | 53.5% |
| Avg. daily vol. 3mth: | 64,600 |

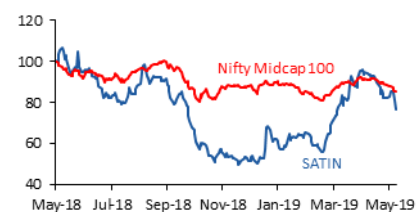
Source: Bloomberg

Changes in the report

| | |
|---------------------|----------------------|
| Rating: | Unchanged |
| Target Price: | To Rs420 from Rs460 |
| Earnings estimates: | 41% FY20E, 47% FY21E |

Source: Centrum Research

SATIN relative to Nifty Midcap 100



Source: Bloomberg

Shareholding pattern

| | Mar-19 | Dec-18 | Sep-18 | Jun-18 |
|------------|--------|--------|--------|--------|
| Promoter | 27.9 | 26.7 | 26.7 | 26.7 |
| FIs | 14.8 | 14.9 | 14.5 | 14.5 |
| DIs | 21.7 | 20.6 | 17.4 | 16.1 |
| Public/oth | 35.6 | 37.8 | 41.4 | 42.7 |

Source: BSE



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Diversified Financials

Thesis Snapshot

Estimate revisions

| YE Mar (Rs mn) | FY20E New | FY20E Old | % chg | FY21E New | FY21E Old | % chg |
|----------------|--------------|--------------|---------|--------------|--------------|----------|
| NII | 9,423 | 8,305 | 13.5 | 11,890 | 10,556 | 12.6 |
| PPoP | 4,381 | 3,510 | 24.8 | 5,532 | 4,250 | 30.2 |
| PAT | 2,287 | 1,637 | 39.7 | 2,938 | 2,016 | 45.7 |
| AUM growth (%) | 30.3 | 30.6 | (25)bps | 27.8 | 31.5 | (374)bps |
| GNPA | 2.5 | 2.5 | 2.9 | 2.8 | 2.5 | 28.0 |

Source: Centrum Research estimates

Centrum estimates vs Actual results

| YE Mar (Rs mn) | Centrum Q4FY19 | Actual Q4FY19 | Variance (%) |
|----------------|-------------------|------------------|-----------------|
| NII | 1,456 | 1,065 | 36.7 |
| PPoP | 578 | 726 | (20.4) |
| PAT | 242 | 555 | (56.4) |
| Loan growth | 28.1 | 14.0 | 1407bps |

Source: Bloomberg, Centrum Research estimates

Satin versus Nifty Midcap 100

| | 1m | 6m | 1 year |
|------------------|--------|-------|--------|
| SATIN IN | (18.6) | 43.1 | (22.9) |
| Nifty Midcap 100 | (6.5) | (3.7) | (14.1) |

Source: Bloomberg, NSE

Key assumptions

| YE Mar (Rs mn) | FY19E | FY20E | FY21E |
|------------------------|-------|-------|-------|
| AUM growth (%) | 25.4 | 30.3 | 27.8 |
| NIM (%) | 9.4 | 9.8 | 9.9 |
| Other inc / Assets (%) | 3.0 | 3.0 | 2.6 |
| Cost / Assets (%) | 6.6 | 6.9 | 6.7 |
| Provision costs | 0.9 | 1.3 | 1.2 |

Source: Centrum Research estimates

Key performance indicators

| Ye Mar (%) | FY17 | FY18 | FY19 | FY20E | FY21E |
|---------------------------|------|------|------|-------|-------|
| AUM growth (%) | 10.6 | 40.6 | 25.4 | 30.3 | 27.8 |
| NIM (%) | 9.4 | 10.0 | 9.4 | 9.8 | 9.9 |
| Other Income / Assets (%) | 0.5 | 0.6 | 3.0 | 3.0 | 2.6 |
| Cost / assets (%) | 7.4 | 6.3 | 6.6 | 6.9 | 6.7 |
| Provision costs (%) | 1.5 | 1.6 | 0.9 | 1.3 | 1.2 |
| ROA (%) | 0.6 | 1.5 | 3.0 | 3.1 | 3.1 |
| GNPA (%) | 0.5 | 5.3 | 3.0 | 2.5 | 2.8 |
| NNPA (%) | 0.3 | 3.0 | 2.1 | 2.1 | 2.5 |
| PCR (%) | 45.3 | 43.7 | 30.2 | 17.1 | 9.9 |
| NNPA / Equity (%) | 1.3 | 13.6 | 8.0 | 10.9 | 14.1 |

Source: Company, Centrum Research estimates

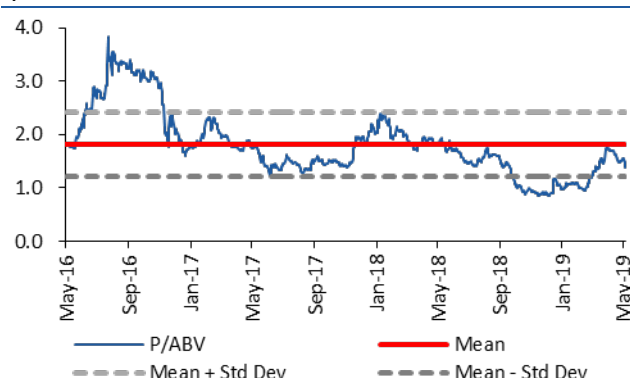
Valuations

We have slightly lowered our AUM growth estimates for FY20/FY21E. We remain convinced about Satin due to the steady progression being witnessed across key business parameters. We retain Buy and revise TP to Rs420 (valued at 1.5x FY21E ABV, from 1.6x earlier). Risks to our call include lower-than-expected AUM growth, margin compression, and elevated NPAs.

Valuations

| | |
|-------------------------|------|
| FY21E ABVPS (Rs) | 284 |
| Historical P / ABV (x) | 0.91 |
| Premium assigned (%) | 63 |
| Ascribed P / ABV (x) | 1.48 |
| Fair value / share (Rs) | 420 |

P/BV mean and standard deviation



Sensitivity analysis

| | AuM | | | | |
|----------------|---------|---------|------------------|---------|---------|
| | + 10bps | + 20bps | ' Current levels | - 10bps | - 20bps |
| NIM | | | | | |
| - 5bps | (2.2) | (2.9) | (1.6) | (1.0) | (0.3) |
| - 10bps | (3.8) | (4.5) | (3.2) | (2.6) | (1.9) |
| Current levels | (0.6) | (1.3) | - | 0.6 | 1.3 |
| + 5bps | 1.0 | 0.3 | 1.6 | 2.2 | 2.9 |
| + 10bps | 2.6 | 1.9 | 3.2 | 3.8 | 3.8 |

Source: Bloomberg, Centrum Research estimates

Conference call takeaways

On operations

- BC partnership with IndusInd bank covers 140 branches.
- Cashless collection is targeted at 50% by FY20; in the past six months the company had launched pilot projects around this
- The Housing Finance subsidiary has zero delinquencies
- AUM growth guidance is 30-35% and off book AUM represented by Securitisation and Assignment is guided at 30-35% of the total AUM
- On capital the management stated that even though CRAR stands at 28.5%, the company may raise capital to fund the subsidiaries.

On asset quality

- The recovery of GNPA during the quarter has been at Rs190mn.
- Collection efficiency is 99.5% and 99% on a blended book basis
- Odisha exposure is ~5% of AUM, absolute amount is Rs3.3bn. Out of 200,000 clients, 10,000 have been impacted with overdue of Rs8mn

P&L

- OCI number was higher due to change in the business model, incremental impact will be minimum as major impact is already reflected
- PAT guidance at Rs2.6bn for FY20 on a consolidated basis
- On higher opex, the management highlighted that due to higher process & technology transition and implementation, the cost has sequentially gone up. The management stated this is going to moderate going forward as efficiencies flow in. There is no guidance on C/I
- The management further mentioned that cash cushion is higher despite the negative carry to it as a conservative measure to prevent any unforeseen liquidity crunch.

Fig 1: Quarterly Financials

| Particulars (Rs mn) | Q1FY18 | Q2FY18 | Q3FY18 | Q4FY18 | Q1FY19 | Q2FY19 | Q3FY19 | Q4FY19 |
|---------------------------------|----------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Income statement | | | | | | | | |
| Interest earned | 2,222 | 2,324 | 2,413 | 2,713 | 3,045 | 3,152 | 3,022 | 2,575 |
| Interest expended | 1,286 | 1,271 | 1,324 | 1,440 | 1,533 | 1,681 | 1,666 | 1,510 |
| Net interest income | 936 | 1,053 | 1,089 | 1,273 | 1,512 | 1,472 | 1,356 | 1,065 |
| Other income | 205 | 27 | 43 | 64 | 51 | 316 | 792 | 726 |
| Total income | 1,141 | 1,081 | 1,132 | 1,337 | 1,563 | 1,788 | 2,148 | 1,791 |
| Operating expenses | 630 | 645 | 747 | 714 | 825 | 914 | 909 | 1,065 |
| Employees | 439 | 466 | 513 | 474 | 597 | 617 | 703 | 731 |
| Others | 191 | 180 | 234 | 240 | 228 | 298 | 206 | 333 |
| Operating profit | 511 | 435 | 385 | 623 | 738 | 874 | 1,239 | 726 |
| Provisions | 1,775 | (711) | (374) | (2) | 358 | 184 | 99 | (121) |
| Profit before tax | (1,264) | 1,146 | 759 | 625 | 380 | 690 | 1,139 | 847 |
| Tax | (442) | 402 | 271 | 213 | 129 | 246 | 439 | 292 |
| Profit after tax | (822) | 744 | 488 | 411 | 251 | 444 | 700 | 555 |
| Balance sheet | | | | | | | | |
| AUM | 37,706 | 39,875 | 43,044 | 50,848 | 54,002 | 55,612 | 55,900 | 63,740 |
| Borrowings | 36,253 | 39,489 | 42,627 | 50,355 | 53,479 | 55,073 | 55,358 | 63,122 |
| Balance sheet ratios (%) | | | | | | | | |
| AUM growth (%) | 4.3 | 5.8 | 7.9 | 18.1 | 6.2 | 3.0 | 0.5 | 14.0 |
| Capital ratios (%) | | | | | | | | |
| Total CRAR | 21.7 | 20.9 | 26.6 | 23.7 | 26.4 | 25.2 | 30.1 | 28.5 |
| Profitability ratios (%) | | | | | | | | |
| Yield on AUM | 24.1 | 24.0 | 23.3 | 23.1 | 23.2 | 23.0 | 21.7 | 22.0 |
| Cost of funds | 14.7 | 13.4 | 12.9 | 12.4 | 11.8 | 12.4 | 12.1 | 12.5 |
| NIM (%) | 10.1 | 10.9 | 10.5 | 10.8 | 11.5 | 10.7 | 9.7 | 7.1 |
| Other income / Assets | 0.6 | 0.1 | 0.1 | 0.2 | 0.1 | 0.6 | 1.4 | 1.3 |
| Cost / Income | 55.2 | 59.7 | 66.0 | 53.4 | 52.8 | 51.1 | 42.3 | 59.5 |
| Cost / Assets | 6.8 | 6.7 | 7.2 | 6.1 | 6.3 | 6.7 | 6.5 | 7.1 |
| RoE | (71.7) | 6.3 | 28.1 | 18.9 | 10.7 | 18.0 | 26.9 | 20.0 |
| RoA | (6.9) | 59.2 | 3.8 | 2.8 | 1.5 | 2.6 | 4.2 | 3.3 |
| Asset quality ratios (%) | | | | | | | | |
| GNPA | 14.7 | 11.4 | 9.2 | 4.4 | 3.9 | 4.1 | 3.2 | 3.1 |
| Provision costs (%) | 16.6 | (7.3) | (3.6) | (0.02) | 2.7 | 1.3 | 0.7 | (0.8) |

Source: Company, Centrum Research estimates

| P&L | | | | | |
|--------------------|--------------|--------------|--------------|--------------|---------------|
| YE March (Rs bn) | FY17 | FY18 | FY19 | FY20E | FY21E |
| Interest income | 7,572 | 9,672 | 11,795 | 14,687 | 19,386 |
| Interest expense | 4,351 | 5,320 | 6,390 | 7,490 | 9,993 |
| NII | 3,221 | 4,352 | 5,405 | 7,197 | 9,393 |
| Other income | 195 | 339 | 1,935 | 2,226 | 2,497 |
| Total income | 3,415 | 4,690 | 7,340 | 9,423 | 11,890 |
| Operating expenses | 2,538 | 2,737 | 3,763 | 5,042 | 6,358 |
| Employee | 1,568 | 1,891 | 2,648 | 3,915 | 5,050 |
| Others | 970 | 845 | 1,115 | 1,128 | 1,308 |
| PPOP | 877 | 1,954 | 3,577 | 4,381 | 5,532 |
| Provisions | 505 | 688 | 520 | 968 | 1,147 |
| PBT | 372 | 1,266 | 3,057 | 3,413 | 4,385 |
| Tax | 127 | 445 | 1,107 | 1,126 | 1,447 |
| PAT | 245 | 821 | 1,950 | 2,287 | 2,938 |

| Ratios | | | | | |
|-----------------------------|--------|-------|--------|-------|-------|
| YE March (Rs bn) | FY17 | FY18 | FY19 | FY20E | FY21E |
| Growth (%) | | | | | |
| AUM | 10.6 | 40.6 | 25.4 | 30.3 | 27.8 |
| Borrowings | 40.3 | 33.8 | 1.5 | 26.1 | 33.6 |
| NII | 49.8 | 35.1 | 24.2 | 33.2 | 30.5 |
| Other income | (63.7) | 73.9 | 471.3 | 15.0 | 12.2 |
| Opex | 57.6 | 4.6 | 40.6 | 34.7 | 26.5 |
| PPoP | (19.0) | 122.8 | 83.1 | 22.5 | 26.3 |
| Provisions | 142.7 | 36.1 | (24.3) | 86.1 | 18.5 |
| PAT | (57.7) | 235.3 | 137.4 | 17.3 | 28.5 |
| Profitability (%) | | | | | |
| Yield on advances | 20.9 | 21.2 | 19.6 | 19.0 | 19.6 |
| Cost of funds | 11.5 | 10.1 | 10.3 | 10.4 | 10.9 |
| Spread | 5.6 | 5.8 | 6.1 | 7.1 | 7.2 |
| NIM (on AuM) | 9.4 | 10.0 | 9.4 | 9.8 | 9.9 |
| Other Income/ Total Income | 5.7 | 7.2 | 26.4 | 23.6 | 21.0 |
| Other Income / Total Assets | 0.5 | 0.6 | 3.0 | 3.0 | 2.6 |
| Cost/Income | 74.3 | 58.3 | 51.3 | 53.5 | 53.5 |
| Opex/ Avg AuM | 7.4 | 6.3 | 6.6 | 6.9 | 6.7 |
| Provisions | 1.5 | 1.6 | 0.9 | 1.3 | 1.2 |
| Tax Rate | 34.1 | 35.1 | 36.2 | 33.0 | 33.0 |
| RoE | 5.1 | 10.7 | 19.1 | 18.1 | 19.8 |
| RoA | 0.6 | 1.5 | 3.0 | 3.1 | 3.1 |

| DuPont analysis | | | | | |
|--------------------|------------|------------|-------------|-------------|-------------|
| (% AuM) | FY17 | FY18 | FY19 | FY20E | FY21E |
| Interest income | 18.8 | 17.6 | 18.4 | 19.8 | 20.2 |
| Interest expense | 10.8 | 9.7 | 9.9 | 10.1 | 10.4 |
| NII | 8.0 | 7.9 | 8.4 | 9.7 | 9.8 |
| Other income | 0.5 | 0.6 | 3.0 | 3.0 | 2.6 |
| Total income | 8.5 | 8.5 | 11.4 | 12.7 | 12.4 |
| Operating expenses | 6.3 | 5.0 | 5.9 | 6.8 | 6.6 |
| PPOP | 2.2 | 3.5 | 5.6 | 5.9 | 5.8 |
| Provisions | 1.3 | 1.2 | 0.8 | 1.3 | 1.2 |
| PBT | 0.9 | 2.3 | 4.8 | 4.6 | 4.6 |
| Tax | 0.3 | 0.8 | 1.7 | 1.5 | 1.5 |
| PAT | 0.6 | 1.5 | 3.0 | 3.1 | 3.1 |

Source: Company, Centrum Research estimates

| Balance Sheet | | | | | |
|-----------------------------|---------------|---------------|---------------|---------------|----------------|
| YE March (Rs bn) | FY17 | FY18 | FY19 | FY20E | FY21E |
| Share capital | 621 | 473 | 485 | 503 | 503 |
| Reserves and surplus | 6005 | 8446 | 11029 | 13198 | 15532 |
| Other long-term liabilities | 0 | 0 | 0 | 0 | 0 |
| Long-term provisions | 263 | 38 | 51 | 17 | 20 |
| Long-term borrowings | 20201 | 27071 | 27507 | 34632 | 46273 |
| Short-term borrowings | 1676 | 2245 | 2282 | 2882 | 3851 |
| CM of Long term Borrowing | 16569 | 22204 | 22562 | 28505 | 38086 |
| Other current liabilities | 1716 | 2084 | 3073 | 2059 | 3073 |
| Short-term provisions | 437 | 63 | 85 | 2178 | 3647 |
| Total Liabilities | 47,488 | 62,626 | 67,073 | 83,976 | 110,985 |
| Fixed Assets | 499 | 554 | 617 | 658 | 717 |
| Non-current investments | 498 | 1,053 | 2,991 | 3,141 | 3,298 |
| Deferred tax assets (net) | 227 | 887 | 312 | 400 | 450 |
| Other non-current assets | 1,548 | 412 | 263 | 276 | 290 |
| Lon-term loans | 8,317 | 12,305 | 11,341 | 18,051 | 22,881 |
| Short-term loans | 24,434 | 36,086 | 33,260 | 52,938 | 67,102 |
| Current investments | 205 | 432 | 1,228 | 1,375 | 1,540 |
| Trade receivables | 0 | 2 | 65 | 65 | 65 |
| Cash and bank balances | 11,079 | 10,832 | 16,978 | 7,052 | 14,623 |
| Other current assets | 681 | 62 | 19 | 20 | 21 |
| Total Assets | 47,488 | 62,626 | 67,073 | 83,976 | 110,985 |
| Balance Sheet (%) | | | | | |
| Debt / Equity | 5.8 | 5.8 | 4.5 | 4.8 | 5.5 |
| Assets / Equity | 7.2 | 7.0 | 5.8 | 6.1 | 6.9 |
| Cash / ST borrowings | 6.6 | 4.8 | 7.4 | 2.4 | 3.8 |
| Capital (%) | | | | | |
| CRAR | 24.1 | 18.7 | 28.5 | 28.2 | 23.8 |
| Tier-1 | 16.6 | 15.7 | 20.8 | 19.7 | 17.4 |
| Tier-2 | 7.6 | 3.0 | 7.7 | 8.5 | 6.4 |
| Asset quality (%) | | | | | |
| GNPA (Rs mn) | 145.8 | 2,161.2 | 1,319.0 | 1,795.0 | 2,501.4 |
| NNPA (Rs mn) | 79.8 | 1,215.8 | 920.2 | 1,488.2 | 2,254.2 |
| GNPA | 0.5 | 5.3 | 3.0 | 2.5 | 2.8 |
| NNPA | 0.3 | 3.0 | 2.1 | 2.1 | 2.5 |
| PCR | 45.3 | 43.7 | 30.2 | 17.1 | 9.9 |
| NNPA/ Equity | 1.3 | 13.6 | 8.0 | 10.9 | 14.1 |
| Per share (Rs) | | | | | |
| EPS | 6.6 | 17.4 | 40.2 | 45.4 | 58.4 |
| DPS | - | - | 10.0 | 11.0 | 12.0 |
| BVPS | 171.7 | 188.7 | 237.3 | 272.3 | 318.7 |
| ABVPS | 169.5 | 163.0 | 218.3 | 242.7 | 284.0 |
| Valuation (x) | | | | | |
| P/E | 62.2 | 18.2 | 7.5 | 6.5 | 5.1 |
| P/BV | 2.4 | 1.7 | 1.3 | 1.1 | 0.9 |
| P/ABV | 2.4 | 1.9 | 1.4 | 1.2 | 0.9 |

Source: Company, Centrum Research estimates

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