

Satin Creditcare Network - BUY

Sturdy performance, attractive valuation

Healthy AUM growth; further progress on risk containment

Satin delivered a reasonably strong AUM growth of 25% yoy under the stand-alone entity (SCNL); while on consolidated basis (including subsidiaries involved in BC partnerships, Housing and MSME lending), the AUM growth stood at 23% yoy for FY19. The MFI AUM within SCNL grew 13% qoq, as average monthly disbursements jumped 73% over the preceding quarter. Liquidity has not been a constraint for Satin, but is being provided preferably through the off-book route. Consequently, the share of direct assignments and IndusInd BC tie-up within the MFI portfolio has substantially increased in H2 FY19 and CAR has materially improved. Regional diversification through branch addition remains the key pillar of growth, manifested in robust growth in active client base, low disbursement tickets and elevated opex ratios. Thus, portfolio risk continues to come down when measured in terms of average exposure per district, exposure to Top 10 districts and exposure to Top 4 states (UP, Bihar, MP and Punjab).

The BC business under the subsidiary Taraashna (TSL) has been sluggish, but the company is soon looking to add more partners. New business ventures of MSME lending (currently under SCNL) and Housing Finance are scaling-up rapidly and increasing their contribution in consolidated AUM. So, persistent progress in product diversification also contributes towards risk containment. Management expects to deliver 30-35% AUM growth in FY20 backed by availability of ample liquidity, room for customer penetration in recently entered markets, increase in average ticket size (15-20% raise on cycle migration), significant scope to grow the BC portfolio for IndusInd Bank and high operational preparedness to manage portfolio quality.

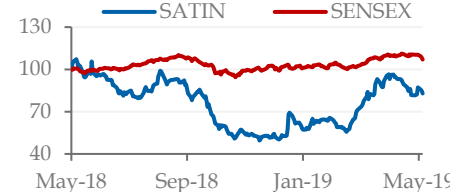
| CMP (Rs) 307 | | 12-mts Target (Rs) 440 | Upside 43% |
|--|----------|---|------------|
| Stock data (As on May 09, 2019) | | Sector: Financials | |
| Sensex: | 37,677 | Stock performance | |
| 52 Week h/l (Rs) | 440/183 |  | |
| Market cap (Rs bn) | 15 | Shareholding pattern (As of Mar'19 end) | |
| Enterprise value (Rs bn) | - | Promoter | 29.7% |
| 6m Avg t/o (Rs mn): | 32 | FII+DII | 39.7% |
| FV (Rs): | 10 | Others | 30.6% |
| Div yield (%): | - | | |
| Bloomberg code: | SATIN IN | | |
| BSE code: | 539404 | | |
| NSE code: | SATIN | | |

Exhibit 1: Result table (Consolidated)

| Y/e 31 Mar (Rs mn) | Q4 FY19 | Q3 FY19 | % qoq | Q4 FY18 | % yoy |
|---------------------------------|--------------|--------------|---------------|--------------|--------------|
| Operating Income | 3,477 | 3,987 | (12.8) | 2,949 | 17.9 |
| Interest Expenses | (1,528) | (1,673) | (8.6) | (1,455) | 5.1 |
| Net Interest Income | 1,949 | 2,314 | (15.8) | 1,494 | 30.4 |
| Other income | 21 | 14 | 52.8 | 2 | 1,034.9 |
| Total Income | 1,971 | 2,328 | (15.4) | 1,496 | 31.7 |
| Operating expenses | (1,225) | (1,069) | 14.6 | (926) | 32.3 |
| Provisions | 119 | (100) | (219.2) | 2 | 5,863.8 |
| PBT | 865 | 1,159 | (25.4) | 572 | 51.2 |
| Tax | (301) | (445) | (32.4) | (195) | 54.5 |
| PAT | 565 | 714 | (20.9) | 378 | 49.5 |
| OCI | 255 | (0) | - | (1) | |
| Total Comprehensive Inc. | 819 | 714 | 14.7 | 376 | 117.6 |

Source: Company, YES Sec - Research

May 09, 2019

Research Analyst: Rajiv Mehta ✉ rajiv.mehta@yesssecuritiesltd.in | Sachit Damani ✉ sachit.damani@yesssecuritiesltd.in

Head of Research: Amar Ambani ✉ amar.ambani@yesssecuritiesltd.in

(For important information about YES SECURITIES (INDIA) LTD. and other disclosures, refer to the end of this material.)

Exhibit 2: Business Data

| (Rs m) | Q4 FY19 | Q3 FY19 | % qoq | Q4 FY18 | % yoy |
|---------------------------------|---------------|---------------|-------------|---------------|-------------|
| AUM - Rs mn | 70,680 | 62,080 | 13.9 | 57,570 | 22.8 |
| MFI (SCNL) | 61,130 | 54,180 | 12.8 | 50,101 | 22.0 |
| MSME (SCNL) | 2,610 | 1,710 | 52.6 | 750 | 248.0 |
| TSL | 6,040 | 5,730 | 5.4 | 6,700 | (9.9) |
| SHFL | 790 | 460 | 71.7 | 20 | - |
| Average Ticket Size - Rs | | | | | |
| MFI (SCNL) | 26,000 | 25,000 | 4.0 | 30,000 | (13.3) |
| MSME (SCNL) | 4,000,000 | 2,260,000 | 77.0 | 870,000 | 359.8 |
| TSL | 28,400 | 26,900 | 5.6 | 24,000 | 18.3 |
| SHFL | 1,453,000 | 1,380,000 | 5.3 | - | - |
| Branches - No | | | | | |
| SCNL | 977 | 937 | 4.3 | 809 | 20.8 |
| TSL | 180 | 179 | 0.6 | 184 | (2.2) |
| SHFL | 5 | 3 | 66.7 | 2 | 150.0 |
| Employees - No | | | | | |
| SCNL | 10,419 | 10,538 | (1.1) | 7,653 | 36.1 |
| TSL | 1,325 | 1,335 | (0.7) | 1,344 | (1.4) |
| SHFL | 83 | 67 | 23.9 | 7 | - |

Source: Company, YES Sec – Research

Exhibit 3: Key Ratios

| (Rs m) | Q4 FY19 | Q3 FY19 | % qoq | Q4 FY18 | % yoy |
|---------------------------|-------------|-------------|--------------|-------------|--------------|
| Gross Yield* | 22.1 | 27.4 | (5.3) | 23.7 | (1.6) |
| Financial Cost Ratio* | 10.1 | 12.0 | (1.9) | 12.3 | (2.2) |
| NIM* | 12.0 | 15.4 | (3.4) | 11.4 | 0.6 |
| C/I | 62.1 | 45.9 | 16.2 | 61.9 | 0.3 |
| Loan Loss Ratio* | (0.8) | 0.7 | (1.5) | (0.0) | (0.8) |
| Gross NPA / PAR 90 | 2.9 | 3.2 | (0.3) | 4.4 | (1.5) |
| RoA | 3.3 | 4.2 | (0.9) | 2.5 | 0.8 |
| RoE | 20.4 | 27.5 | (7.1) | 17.4 | 3.0 |
| CAR | 28.5 | 30.1 | (1.6) | 23.7 | 4.9 |

Source: Company, YES Sec – Research

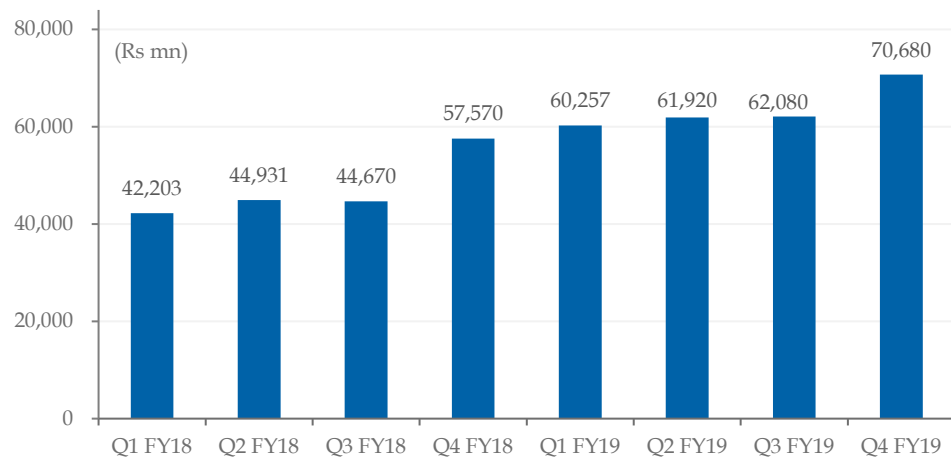
*On Standalone basis

Portfolio quality improves further; profitability reverting to higher sustainable levels

The PAR 90 % continue to correct as blended collection efficiency (CE) stays above the 99% mark. For disbursements done since January 2018 (89% of MFI AUM), the CE has been trending at 99.5%. Positive trends in asset quality and the base portfolio composition moving towards the recent loans (on which CE is high) led to a decline in ECL provisions. Thus, notwithstanding a higher opex. ratio in Q4 FY19, the RoA/RoE stood at healthy levels of 3.3%/20%. Barring any significant asset quality challenges, we believe that the current level of profitability is sustainable. Normalization of credit cost (assuming 1.2-1.4% v/s 0.8% in FY19) can get mitigated by an improvement in cost ratio over the next couple of years, which will likely be caused by improvement in customers per loan officers, scope for value-led growth, shift towards cashless collections and right sizing of support employees. The only caveat being the macro environment remaining conducive for good quality growth.

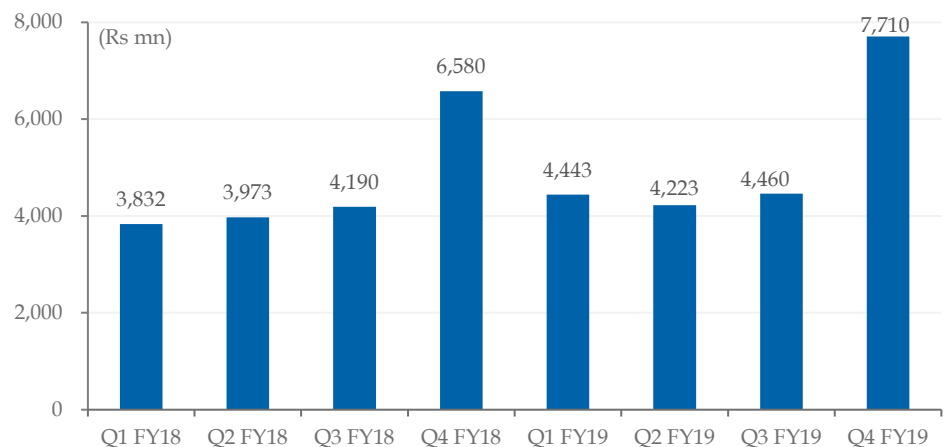
We estimate 24-25% earnings CAGR for Satin over FY19-21 assuming a lower-than-guided AUM growth, reasonable operating leverage and a material uptick in credit cost. With the share of off-book AUM likely to stay higher, the core capital levels and RoEs should remain robust. While we are fully cognizant of the vulnerability of MFI business to asset quality shocks, the ongoing state/district level diversification and intended shift towards cashless collections should stand is good stead for Satin. We therefore believe that stock's current valuation (<5x P/E and <1x P/BV on FY21 estimates) is alluring. Recommend BUY.

Exhibit 4: Sturdy AUM expansion in Q4 FY19



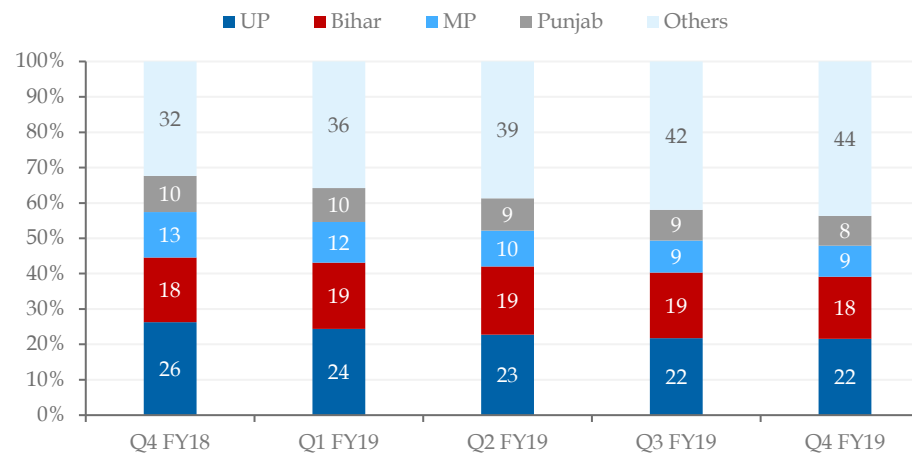
Source: Company, YES Sec – Research
 Note: AUM based on consolidated figures

Exhibit 5: Avg. monthly disbursements jump



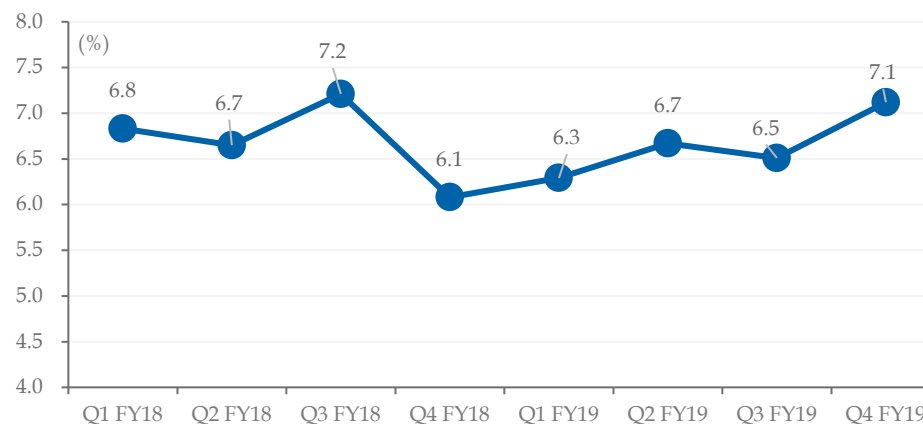
Source: Company, YES Sec – Research
 Note: Disbursements based on consolidated figures

Exhibit 6: Regional diversification of AUM continues



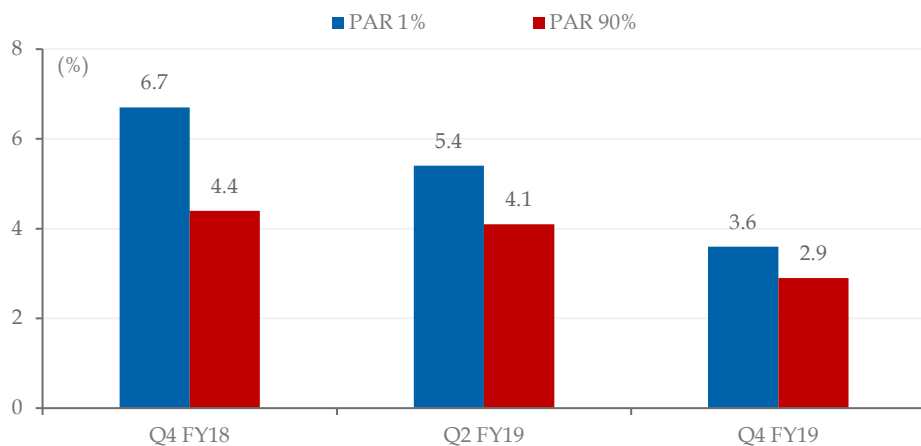
Source: Company, YES Sec – Research
 Note: AUM Mix based on consolidated figures

Exhibit 7: Opex ratio elevated; expected to come-off in future



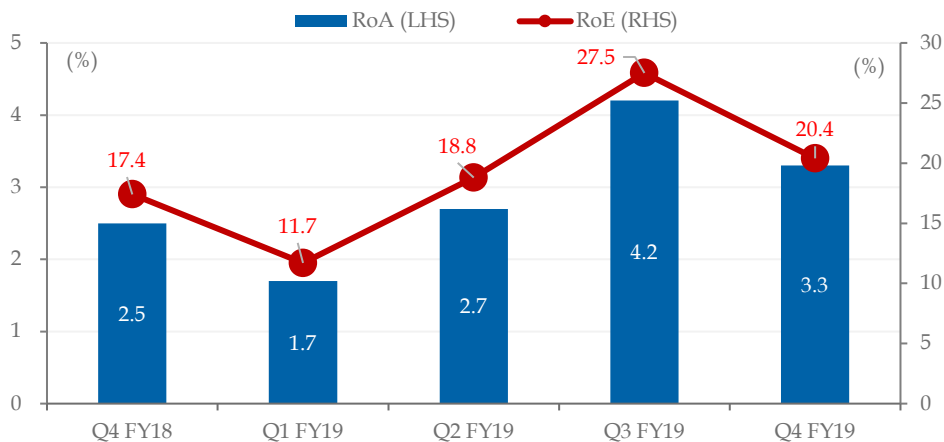
Source: Company, YES Sec – Research
 Note: Based on Standalone figures

Exhibit 8: Asset quality indicators have consistently improved



Source: Company, YES Sec – Research

Exhibit 9: Sustainable recovery in RoA/RoE



Source: Company, YES Sec – Research

Note: Ratios based on consolidated figures

Exhibit 10: Valuation Summary – Consolidated (Ind AS)

| Y/e 31 Mar (Rs. mn) | FY18 | FY19 | FY20E | FY21E |
|-----------------------------------|-------|-------|--------|--------|
| Total income | 4,972 | 8,055 | 10,039 | 12,608 |
| yoy growth (%) | - | 62.0 | 24.6 | 25.6 |
| Operating profit (pre-provisions) | 1,603 | 3,682 | 4,712 | 6,174 |
| Net profit | 748 | 2,015 | 2,455 | 3,114 |
| yoy growth (%) | - | 169.4 | 21.8 | 26.9 |
| EPS (Rs) | 15.8 | 41.5 | 50.6 | 64.2 |
| BVPS (Rs) | 187.2 | 236.8 | 287.4 | 351.6 |
| P/E (x) | 19.5 | 7.4 | 6.1 | 4.8 |
| P/BV (x) | 1.6 | 1.3 | 1.1 | 0.9 |
| ROE (%) | 11.2 | 19.8 | 19.3 | 20.1 |
| ROA (%) | 1.4 | 3.1 | 3.3 | 3.4 |

Source: Company, YES Sec – Research

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY > 15%

ADD 5% to 15%

HOLD -15% to +5%

SELL > - 15%

NOT RATED

UNDER REVIEW

POSITIVE: Positive is rating given to stocks we like but yet to be formally included in our coverage universe.

NEGATIVE: Negative is rating given to stocks yet to be formally included in our coverage universe, but we find valuations expensive vis-a-vis fundamentals.

NEUTRAL: Neutral rating is given to stocks that are not under our formal coverage yet, but we find current valuation fairly representing fundamentals.

ABOUT YES SECURITIES (INDIA) LIMITED

YES SECURITIES (INDIA) LIMITED ("YSL") was incorporated on 14th March 2013 as a wholly owned subsidiary of YES BANK LIMITED. YSL does not have any other associates. YSL is a SEBI registered stock broker holding membership of NSE and BSE. YSL is also a SEBI registered Category I Merchant Banker, Investment Adviser and a Research Analyst. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.

DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

The information and opinions in this report have been prepared by YSL and are subject to change without any notice. The report and information contained herein are strictly confidential and meant solely for the intended recipient and may not be altered in any way, transmitted to, copied or redistributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of YSL.

The information and opinions contained in the research report have been compiled or arrived at from sources believed to be reliable and have not been independently verified and no guarantee, representation of warranty, express or implied, is made as to their accuracy, completeness, authenticity or validity. No information or opinions expressed constitute an offer, or an invitation to make an offer, to buy or sell any securities or any derivative instruments related to such securities. Investments in securities are subject to market risk. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Investors should note that each security's price or value may rise or fall and, accordingly, investors may even receive amounts which are less than originally invested. The investor is advised to take into consideration all risk factors including their own financial condition, suitability to risk return profile and the like, and take independent professional and/or tax advice before investing. Opinions expressed are our current opinions as of the date appearing on this report. Investor should understand that statements regarding future prospects may not materialize and are of general nature which may not be specifically suitable to any particular investor. Past performance may not necessarily be an indicator of future performance. Actual results may differ materially from those set forth in projections.

Technical Analysis reports focus on studying the price movement and trading turnover charts of securities or its derivatives, as opposed to focussing on a company's fundamentals and opinions, as such, may not match with reports published on a company's fundamentals.

YSL, its research analysts, directors, officers, employees and associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject YSL and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

YES SECURITIES (INDIA) LIMITED

Registered Office: Unit No. 602 A, 6th Floor, Tower 1 & 2, Indiabulls Finance Centre,
Senapati Bapat Marg, Elphinstone Road, Mumbai - 400013, Maharashtra, India.
Tel: +91-22-71123123 | **Email:** research@yessecuritiesltd.in | **Website:** www.yesinvest.in

DISCLOSURE OF INTEREST

Name of the Research Analyst : Rajiv Mehta, Sachit Damani

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

| Sr. No. | Particulars | Yes/No |
|---------|---|--------|
| 1 | Research Analyst or his/her relative's financial interest in the subject company(ies) | No |
| 2 | Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report | No |
| 3 | Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report | No |
| 4 | Research Analyst has served as an officer, director or employee of the subject company(ies) | No |
| 5 | YSL has received compensation or other benefits from the subject company(ies) or third party in connection with this research report | No |
| 6 | Broking/Investment Banking/Merchant Banking relationship with the subject company at the time of publication of Research Report | No |
| 7 | YSL has managed or co-managed public offering of securities for the subject company in the past twelve months | No |
| 8 | Research Analyst or YSL has been engaged in market making activity for the subject company(ies) | No |

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

CIN: U74992MH2013PLC240971 | SEBI Single Registration No.: NSE, BSE & MCX:
INZ000185632 | MERCHANT BANKER: INM000012227 | RESEARCH ANALYST:
INH000002376 | INVESTMENT ADVISER: INA000007331 | AMFI ARN Code - 94338 |

Details of Compliance Officer: Name: Vaibhav Purohit,
Email id: compliance@yessecuritiesltd.in, Contact No-+91-22-33479208