

Results in line; focus on process re-engineering

Satin results were as per expectations. AuM growth was in-line though NII growth came in lower owing to margin compression basis the assignment income booked in other income. PPOP at Rs800mn was largely as expected. The company's focus remains on 1) process evolution by relying on digital initiatives and 2) achieving a pan India presence. This may lead to a more calibrated asset growth although portfolio quality is set to improve as credit checks have become tighter. The impact of the flood related stressed portfolio may not be significant though we have taken a more conservative stance on credit costs. We see the high RoA / RoE trajectory to be maintained at 3.1% / 18.9% in FY21E. Valuation at 1.0x is attractive. We retain our Buy rating though revise TP to Rs410 (vs Rs420 earlier).

Q1FY20 results as expected

AUM / disbursements grew 20% / 35.5% YoY led by customer acquisition (+25% YoY). Assignment rose from Rs80mn to Rs1.48bn YoY. NII saw a 20% YoY decline as reported NIM compressed by 46bps YoY to 11.4% given a sharp yield decline. NIM reduction was also due to assignment income of Rs389mn being included in other income. Cost to income (C/I) improved QoQ by ~31bps to 56.4%. PPOP came in-line at Rs796mn (+7.8% YoY). Asset quality was stable with GNPA / ECL at 2.8% / 1.6% QoQ. PAT came in at Rs414mn (est. of Rs447mn). CAR remains strong at 30.5% (CET - 1 at 23%).

AuM growth to be more controlled as focus is on streamlining processes

Management has been focusing on process re-engineering by continuously investing in technology. Cashless disbursements / collections have gone up to 100% / 12% and the target is to scale up cashless collections to 50% by FY20E. Having a pan India presence is a priority and hence expansion may be in states with a low presence. The target is to cap its per state exposure to < 20% by FY20E. UP currently contributes ~22% to GLP (vs 22% in Q4FY19). Focus on processes may lead to a more controlled AuM growth and elevated opex. Over FY19-21E we see an AuM CAGR of 25.6% while cost to income is expected remain at 52%. MFI contribution is guided to be 2/3rd within 4-5 years.

Target to improve portfolio quality; we are a bit cautious on credit costs

The company has shifted to a centralised service centre versus a back-ended one to have a greater control on processes. Also, running psychometric tests has led to better selection of customers across geographies. This has led to tightened credit checks and rise in rejection rates from 12% to 18% and as per an internal study 57% of the time, Satin is the only lender, suggesting improved credit processes and the untapped MFI potential. Collection efficiency is consistent at 99.4% for loans disbursed since Jan'18. Also, the flood related stressed portfolio may not have a significant impact though there are some signs of stress in the Eastern India portfolio. We are cautiously baking in provision costs of 120bps each for FY20 and FY21.

Valuation and risks

We have lowered our AUM growth estimates for FY20/FY21E though fundamentally we like Satin basis its business model and return ratios. Resultantly we see a slight correction in FY21 ABVPS. We maintain our multiple of 1.5x FY21 ABV and revise TP to Rs410 (vs Rs420 earlier). Risks to our call include higher opex and spike in NPA.

Financial and valuation summary

YE Mar (Rs mn)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	FY19	FY20E	FY21E
NII	1,209	1,512	(20.0)	1,065	13.5	5,405	6,631	8,336
PPoP	796	738	7.8	726	9.6	3,577	4,157	5,207
Provisions	146	358	(59.3)	(121)	NA	521	774	973
PAT	414	250	65.2	555	(25.4)	1,949	2,165	2,710
AUM growth (%)	19.8	43.2	(23.5)ppt	25.4	(5.6)ppt	25.3	24.7	26.4
NIM (%)	11.4	11.8	(46)bps	12.0	(62)bps	8.1	7.9	8.0
C / I (%)	56.4	49.1	723bps	59.5	(309)bps	51.3	52.2	51.9
GNPA (%)	2.8	3.9	(113)bps	2.9	(10)bps	2.8	3.1	3.3
RoA (%)	2.5	1.5	94bps	3.3	(84)bps	3.0	3.0	3.1
RoE (%)	13.5	10.7	277bps	20.0	(647)bps	19.1	18.0	18.9

Source: Company, Centrum Research estimates

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

Market Data

Bloomberg:	SATIN IN
52 week H/L:	Rs410/183
Market cap:	Rs13bn
Shares outstanding:	48mn
Free float:	49.8%
Avg. daily vol. 3mth:	36760

Source: Bloomberg

Changes in the report

Rating:	Unchanged
Target Price:	To Rs410 from Rs420
Earnings est.:	(5.3)% FY20E, (7.8)% FY21E

Source: Centrum Research

SATIN relative to Nifty Midcap 100



Source: Bloomberg

Shareholding pattern

	Jun-19	Mar-19	Dec-18	Sep-18
Promoter	29.7	27.9	26.7	26.7
FIIs	13.3	14.8	14.9	14.5
DII	23.9	21.7	20.6	17.4
Public/oth	33.1	35.6	37.8	41.4

Source: BSE



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Thesis Snapshot

Estimate revisions

YE Mar (Rs mn)	FY20E New	FY20E Old	% chg	FY21E New	FY21E Old	% chg
NII	8,694	9,423	(7.7)	10,825	11,890	(9.0)
PPoP	4,157	4,381	(5.1)	5,207	5,532	(5.9)
PAT	2,165	2,287	(5.3)	2,710	2,938	(7.8)
AUM growth (%)	24.7	30.3	(561)bps	26.4	27.8	(138)bps
GNPA	3.1	2.5	61bps	3.3	2.8	52bps

Source: Centrum Research estimates

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q1FY20	Actual Q1FY20	Variance (%)
NII	1,390	1,209	(13.0)
PPoP	819	796	(2.8)
PAT	447	414	(7.4)
AuM growth	18.7	19.8	106bps

Source: Bloomberg, Centrum Research estimates

Satin versus Nifty Midcap 100

	1m	6m	1 year
SATIN IN	(0.3)	16.8	(30.0)
Nifty Midcap 100	(6.8)	(3.9)	(17.1)

Source: Bloomberg, NSE

Key assumptions

YE Mar (Rs mn)	FY20E	FY21E
AUM growth (%)	24.7	26.4
NIM (%)	7.9	8.0
Other inc / Assets (%)	0.9	0.9
Cost / Assets (%)	6.2	6.4
Provision costs	1.2	1.2

Source: Centrum Research estimates

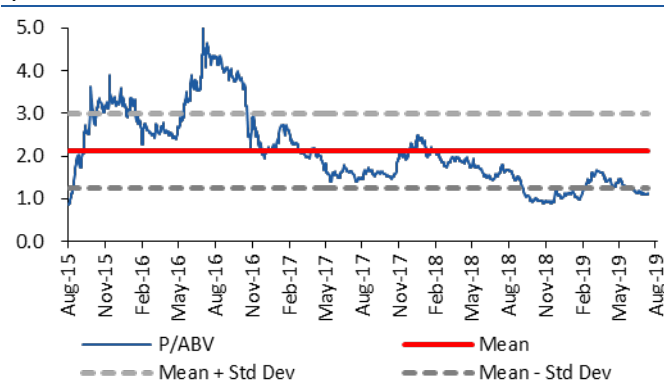
Valuations

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Valuations

FY21E ABVPS (Rs)	284
Historical P / ABV (x)	2.1
Premium assigned (%)	(28.6)
Ascribed P / ABV (x)	1.5
Fair value / share (Rs)	410

P/BV mean and standard deviation



Sensitivity analysis

	AuM				
	+ 10bps	+ 20bps	Current levels	- 10bps	- 20bps
- 5bps	(2.7)	(3.5)	(1.9)	(1.2)	(0.4)
- 10bps	(4.6)	(5.4)	(3.9)	(3.1)	(2.3)
Current levels	(0.8)	(1.6)	-	0.8	1.6
+ 5bps	1.2	0.4	1.9	2.7	3.5
+ 10bps	3.1	2.3	3.9	4.6	4.6

Source: Bloomberg, Centrum Research estimates

Peer comparison

Company	Mkt Cap Rs bn	CAGR FY19-FY21E (%)			P/BVPS			RoA (%)			RoE (%)		
		Total inc	PPOP	PAT	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Satin	12.8	21.4	20.7	17.9	1.3	1.2	0.9	3.0	3.0	3.1	19.1	18.0	18.9
Ujjivan	33.8	33.6	64.2	34.9	2.0	1.8	1.2	1.7	1.5	1.7	10.7	12.1	13.3
Equitas	36.2	26.9	42.8	44.9	1.8	1.3	1.1	1.2	1.7	1.9	7.5	12.5	15.4

Source: Company, Centrum Research estimates

Fig 1: Key concall takeaways and metrics

FY20E Guidance	Q1FY20	Q4FY19	Our Comments
AuM growth	30%+	30-35%	Although the company has guided for 30%+ AuM growth, given the focus of the company on process re-engineering and resultant controlled growth we are conservatively factoring in a CAGR of 25.6% over FY19-21E.
NIM	Stable	Stable	Due to its loan and customer profile basis its micro lending business model, and its maturity pattern of loan and borrowings, passing on the cost of funds movement to customers may not be a challenge. Management expects NIM to be stable in the near term and we have factored the same into our estimates.
Opex	Opex efficiency to improve	Opex efficiency to improve	The company has been investing in technology to streamline its processes and it has guided to substantially expand its branch network in the near term due to focus on diversifying its state concentration. Hence we expect opex in terms of cost to income to remain elevated in the near term. See cost to income at 52% in FY20E and FY21E
Provisions costs	<100bps	< 100bps	Conservatively we are factoring in provisions of 120bps each for FY20 and FY21 due to the impact of floods in certain parts of India, anecdotal evidence of overheating and rural stress.
Consol. PAT	Rs.260crs	Rs.260crs	Consol. PAT of Rs.2.6bn is guided for FY20. We see a standalone PAT of Rs2.2bn for FY20 as we have been cautious on our estimates in terms of AuM growth, opex and provision costs.

Source: Company, Centrum Research estimates

Fig 2: Quarterly Financials

Profit & Loss (Rs mn)	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Interest earned	2,324	2,413	2,713	3,045	3,152	3,022	2,575	2,715
Interest expended	1,271	1,324	1,440	1,533	1,681	1,666	1,510	1,506
Net interest income	1,053	1,089	1,273	1,512	1,472	1,356	1,065	1,209
Other income	27	43	64	51	316	792	726	614
Total income	1,081	1,132	1,337	1,563	1,788	2,148	1,791	1,824
Operating expenses	645	747	714	825	914	909	1,065	1,028
Employees	466	513	474	597	617	703	731	730
Others	180	234	240	228	298	206	333	298
Operating profit	435	385	623	738	874	1,239	726	796
Provisions	(711)	(374)	(2)	358	184	99	(121)	146
Profit before tax	1,146	759	625	380	690	1,139	847	650
Tax	402	271	213	129	246	439	292	236
Profit after tax	744	488	411	251	444	700	555	414
Balance sheet								
AUM (Rs mn)	39,875	43,044	50,848	54,002	55,612	55,900	63,740	64,670
AUM growth (%)	5.8	7.9	18.1	6.2	3.0	0.5	14.0	19.8
Total CRAR (%)	20.9	26.6	23.7	26.4	25.2	30.1	28.5	30.5
Profitability ratios (reported %)								
Gross yield	24.7	24.0	23.5	23.5	25.3	23.7	22.1	20.7
Financial cost	12.3	11.9	10.3	11.7	12.3	12.8	10.1	9.4
NIM	12.4	12.1	13.2	11.8	13.1	10.9	12.0	11.4
Opex ratio	6.6	6.9	6.3	6.2	6.7	7.2	7.1	6.4
Loan loss ratio	3.8	1.7	1.3	2.8	1.3	(3.6)	(0.8)	0.9
ROA	1.1	1.8	3.3	1.5	2.6	3.8	3.3	2.5
Leverage	5.4	4.0	4.1	6.0	5.4	5.3	4.6	3.9
ROE	0.0	0.0	0.0	10.7	18.0	28.1	20.0	13.5
Cost to income	53.4	57.1	47.4	49.1	51.1	66.0	59.5	56.4
Asset quality ratios (%)								
GNPA	11.4	9.2	4.4	3.9	4.1	3.2	2.9	2.8
ECL	5.5	5.5	4.1	3.5	3.2	2.0	1.6	1.6

Source: Company, Centrum Research estimates

P&L (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Interest income	7,357	9,573	11,795	14,174	17,672
Interest expense	4,351	5,317	6,390	7,543	9,336
NII	3,005	4,256	5,405	6,631	8,336
Other income	410	194	1,935	2,063	2,489
Total income	3,415	4,450	7,340	8,694	10,825
Operating expenses	2,538	2,740	3,763	4,538	5,618
Employee	1,568	1,892	2,648	3,203	4,016
Others	914	708	1,002	1,206	1,459
PPOP	877	1,711	3,577	4,157	5,207
Provisions	505	445	521	774	973
PBT	372	1,266	3,056	3,383	4,234
Tax	127	445	1,107	1,218	1,524
PAT	245	821	1,949	2,165	2,710

Ratios	FY17	FY18	FY19	FY20E	FY21E
Growth (%)					
AUM	10.6	40.6	25.3	24.7	26.4
Borrowings	41.8	14.0	9.2	19.2	24.5
NII	32.5	41.6	27.0	22.7	25.7
Other income	(1.9)	(52.6)	895.9	6.6	20.7
Opex	58.3	7.9	37.4	20.6	23.8
PPoP	(19.0)	95.1	109.1	16.2	25.3
Provisions	142.7	(12.0)	17.1	48.6	25.7
PAT	(57.7)	235.3	137.3	11.1	25.2

Profitability (%)					
Yield on advances	17.4	18.1	17.6	17.0	16.9
Cost of funds	13.3	13.0	14.0	14.5	14.7
Spread	4.1	5.1	3.6	2.5	2.2
NIM (on AuM)	7.1	8.1	8.1	7.9	8.0
Other Income/ Total Income	12.0	4.4	8.2	7.5	7.3
Other Income / Total Assets	1.0	0.4	0.9	0.9	0.9
Cost/Income	74.3	61.6	51.3	52.2	51.9
Opex/ Avg AuM	6.3	5.0	5.8	6.2	6.4
Provisions	1.5	1.0	1.0	1.2	1.2
Tax Rate	34.1	35.1	36.2	36.0	36.0
RoA	0.6	1.5	3.0	3.0	3.1
RoE	6.3	12.2	19.1	18.0	18.9

DuPont (% avg assets)	FY17	FY18	FY19	FY20E	FY21E
Interest income	18.4	17.4	18.2	19.5	20.1
Interest expense	10.9	9.7	9.9	10.4	10.6
NII	7.5	7.7	8.3	9.1	9.5
Other income	1.0	0.4	3.0	2.8	2.8
Total income	8.5	8.1	11.3	12.0	12.3
Operating expenses	6.3	5.0	5.8	6.2	6.4
PPOP	2.2	3.1	5.5	5.7	5.9
Provisions	1.3	0.8	0.8	1.1	1.1
PBT	0.9	2.3	4.7	4.7	4.8
Tax	0.3	0.8	1.7	1.7	1.7
PAT	0.6	1.5	3.0	3.0	3.1

Source: Company, Centrum Research estimates

Balance Sheet (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Financial assets	45,514	61,096	66,082	77,026	96,361
Cash	6,530	4,458	10,039	12,241	13,575
Bank balance	6,229	6,374	6,940	7,874	9,955
Loans	31,836	48,452	44,601	48,659	62,421
Investment	703	1,486	4,219	7,874	9,955
Other financial assets	216	326	284	377	455
Non-financial assets	1,773	1,530	992	1,181	1,493
Deferred tax assets	1,197	887	312	430	633
Fixed Assets	343	360	430	644	679
Other Non-fin. assets	233	283	250	107	181
Total Assets	47,287	62,626	67,073	78,208	97,854
Financial liabilities	42,633	53,436	55,230	65,378	81,351
Debt securities	5,881	9,193	9,759	11,636	14,484
Borrowings	32,233	38,624	37,200	44,355	55,212
Subordinated Debt	2,930	3,692	5,392	6,429	8,003
Other financial liabilities	1,589	1,927	2,879	2,958	3,653
Non-financial liabilities	145	270	329	321	401
Current tax liabilities	0	91	118	115	144
Provisions	92	102	135	132	165
Other Non-fin liabilities	53	77	76	74	93
Total equity	4,509	8,919	11,514	12,509	16,102
Share capital	371	473	485	485	535
Other equity	4,138	8,446	11,029	12,023	15,567
Total Liabilities	47,287	62,626	67,073	78,208	97,854
Balance Sheet ratios (%)					
Debt / Equity	9.1	5.8	4.5	5.0	4.8
Assets / Equity	10.5	7.0	5.8	6.3	6.1
Cash / Borrowings	0.3	0.2	0.3	0.3	0.3
Capital Adequacy (%)					
CRAR	24.1	21.2	28.5	29.4	30.3
Tier-1	16.6	14.6	19.9	20.6	21.2
Tier-2	7.6	6.6	8.6	8.8	9.1
Asset quality (%)					
GNPA (Rs mn)	218	2,152	1,779	2,469	3,334
NNPA (Rs mn)	80	742	1,061	1,382	1,728
GNPA	0.6	4.2	2.8	3.1	3.3
NNPA	0.2	1.5	1.7	1.7	1.7
PCR	63.5	65.5	40.4	44.0	48.2
NNPA / Equity	1.8	8.3	9.2	11.0	10.7
Per share (Rs)					
EPS	6.6	17.4	40.2	44.6	50.7
BVPS	121.4	188.7	237.3	257.7	301.1
ABVPS	119.2	173.0	215.4	229.3	268.8
Valuation (x)					
P/E	67.5	20.4	7.7	7.0	5.4
P/BV	3.7	1.9	1.3	1.2	0.9
P/ABV	3.7	2.1	1.4	1.4	1.0

Source: Company, Centrum Research estimates

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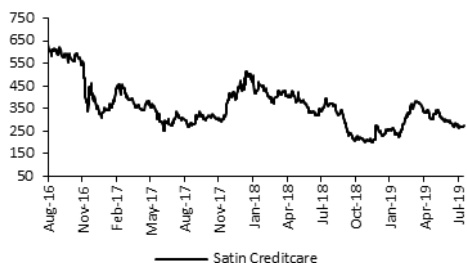
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Sell – The stock is expected to deliver <-5% returns.

Satin Creditcare



Source: Bloomberg

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