

Satin Creditcare Network - BUY

Growth moderates; needs to pick-up

Process re-engineering impacts growth; but potential risks are being tamed and efficiencies are being built

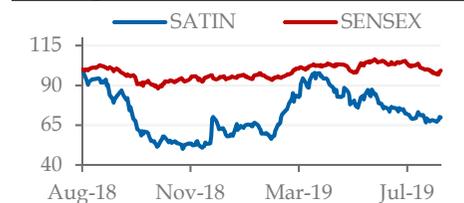
On a stand-alone basis, Satin's MFI AUM growth decelerated further to 16% yoy in Q1 FY20 (stood at 22% and 28% in the preceding two quarters). The moderation has been driven by various process re-engineering initiatives which includes shifting to E-KYC in all branches, geo tagging of branches and customer houses, shifting of branch back-end operations to centralized shared services, implementation of cashless collections and roll-out of psychometric tool for customer onboarding. In management's view, the strengthening of critical processes would reflect in portfolio quality and a faster disbursement turnaround in coming quarters. Acceleration in portfolio run-off also weighed on MFI portfolio growth.

The portfolio under the IndusInd Bank BC tie-up grew only marginally in Q1 FY20, as process re-engineering initiatives were also implemented in branches under this arrangement. On a broader risk level, trends in MFI portfolio are comforting, a) the loan tickets, both outstanding and incremental, have not been increasing much, b) sustained progress on regional diversification, c) district concentration continues to come-off and d) a sturdy asset quality reflected in high collection efficiency, gradual moderation in NPLs and stable credit cost. BC book under the subsidiary Taraashna Services Ltd. (TSL) de-grew significantly qoq as one of the partners continues to scale down the engagement. Traction in MSME lending remained strong; the portfolio grew to Rs2.87bn (up 2.3x yoy). Around 15% of this book is loans to smaller NBFC-MFIs. Affordable housing loans portfolio under subsidiary, Satin Housing Finance Ltd., continue to scale-up rapidly (grew by 28% qoq and 7.5x yoy). The share of non-MFI products in the consolidated AUM rose to 6% (1.6% in Q1 FY19).

CMP (Rs) 275
12-mts Target (Rs) 410
Upside 49%
Stock data (As on Aug 09, 2019)

Sector: Financials

Sensex:	37,582
52 Week h/l (Rs)	408/183
Market cap (Rs bn)	13
Enterprise value (Rs bn)	-
6m Avg t/o (Rs mn):	15
FV (Rs):	10
Div yield (%):	-
Bloomberg code:	SATIN IN
BSE code:	539404
NSE code:	SATIN

Stock performance

Shareholding pattern (As of Jun '19 end)

Promoter	29.7%
FII+DII	40.2%
Others	30.1%

Exhibit 1: Result table (Consol.)

Y/e 31 Mar (Rs mn)	Q1 FY20	Q4 FY19	% qoq	Q1 FY19	% yoy
Operating Income	3,526	3,477	1.4	3,274	7.7
Interest Expenses	(1,526)	(1,528)	(0.2)	(1,542)	(1.0)
Net Interest Income	2,001	1,949	2.6	1,732	15.5
Other income	5	21	(75.8)	3	82.6
Total Income	2,006	1,971	1.8	1,735	15.6
Operating expenses	(1,215)	(1,225)	(0.8)	(964)	26.1
Provisions	(148)	119	(223.6)	(359)	(58.8)
PBT	643	865	(25.7)	413	55.7
Tax	(235)	(301)	(22.0)	(138)	70.1
PAT	409	565	(27.6)	275	48.6
OCI	84	255	(66.9)	(0)	-
Comprehensive Income	493	819	(39.8)	275	79.2

Source: Company, YES Sec - Research

Exhibit 2: Business Data

Business (Rs mn)	Q1 FY20	Q4 FY19	% qoq	Q1 FY19	% yoy
AUM	71,390	70,680	1.0	60,257	18.5
MFI (SCNL)	61,800	61,130	1.1	53,140	16.3
MSME (SCNL)	2,870	2,610	10.0	862	232.9
TSL	5,420	6,040	(10.3)	6,136	(11.7)
SHFL	1,010	790	27.8	119	-
ATS (Rs)					
MFI (SCNL)	28,000	26,000	7.7	29,000	(3.4)
MSME (SCNL)	4,950,000	4,000,000	23.8	1,180,000	319.5
TSL	28,600	28,400	0.7	25,800	10.9
SHFL	1,386,000	1,453,000	(4.6)	1,250,000	10.9
Branches - No					
SCNL	1,024	977	4.8	838	22.2
TSL	186	180	3.3	177	5.1
SHFL	6	5	20.0	2	200.0
Employees - No					
SCNL	9,555	10,419	(8.3)	7,951	20.2
TSL	1,342	1,325	1.3	1,377	(2.5)
SHFL	106	83	27.7	40	165.0

Source: Company, YES Sec - Research

Exhibit 3: Key Ratios

Particulars (%)	Q1 FY20	Q4 FY19	Chg.	Q1 FY19	Chg.
Gross Yield*	20.7	22.1	(1.3)	23.6	(2.9)
Financial Cost Ratio*	9.4	10.1	(0.7)	11.7	(2.3)
NIM*	11.4	12.0	(0.6)	11.9	(0.6)
C/I	60.6	62.1	(1.6)	55.5	5.0
Loan Loss Ratio*	0.9	(0.8)	1.7	2.7	(1.8)
Gross NPA / PAR 90	2.8	2.9	(0.1)	3.9	(1.1)
RoA*	2.5	3.3	(0.8)	1.5	0.9
RoE*	13.5	20.0	(6.5)	10.7	2.8
CAR	30.5	28.5	2.0	23.4	7.1

Source: Company, YES Sec - Research

*On a Standalone Basis

Management aspires for 30% AUM growth; operational efficiency to reflect in cost metrics from H2

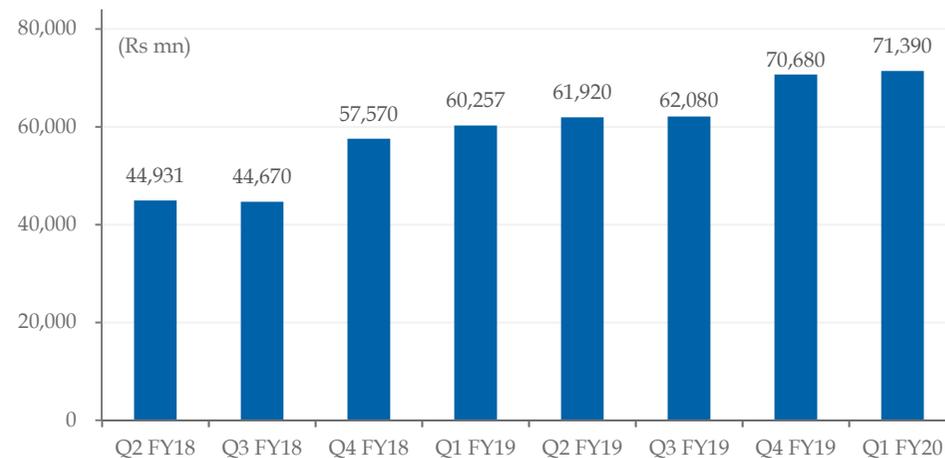
The funding situation remains quite manageable for Satin. The company raised incremental funds of Rs14bn+ during the quarter, of which Rs5.85bn was via securitization and assignments. While the process reengineering initiatives are likely to partially impact growth in Q2 FY20 also, the Management is confident of growing strongly in the seasonally strong H2. The growth enablers are in place in the form of substantial branch additions in newer states (entered in past couple of years) and new states, and natural progression in disbursement ticket size given that 53% are first cycle customers currently. After strengthening the systems and processes, entailing a stronger control over portfolio quality, Satin would also be more comfortable in pushing the growth peddle. The company has maintained high liquidity on the balance sheet to the tune of Rs18bn (equivalent to average one-quarter disbursements) and has undrawn sanctions worth Rs14bn. Capital will not be deterrent for growth too, considering that Tier-1 CAR has increased to 30.5% on the back of sustained increase in off-book AUM.

The centralization of the branch back-end operations has caused a substantial reduction in support staff (non-LO employee base declined by more than 1000 over the past two quarters). Also, the augmentation of loan officers has been less-than-commensurate to branch additions, probably in view of efficiency benefits likely to accrue from the above-mentioned process initiatives. The cost growth came-off in Q1 FY20; however, due to a sharper deceleration in avg. AUM growth, the cost metric was unchanged. From H2 FY20, cost ratios will likely embark on the path of sustained improvement as AUM growth improves.

Growth acceleration key for RoE improvement and valuation re-rating

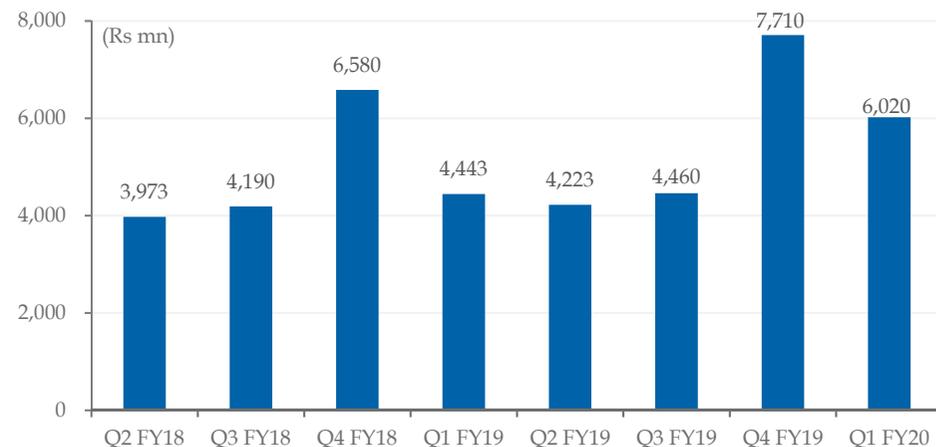
While Satin is taking credible steps to drive cost productivity and ensuring strong portfolio quality, acceleration in growth remains critical to realize a structural expansion in profitability. As AUM growth is expected to pick-up from H2 FY20, we believe FY21 will be the year of significant RoA expansion, despite an increase in leverage. Achieving PAT guidance of Rs2.6bn in the current fiscal becomes a daunting ask for the company post a modest performance in Q1 FY20. However, earnings growth is estimated to be quite strong in FY21 and RoE could reach 18-19%. Valuation is undemanding at 0.8x P/ABV and 4.6x P/E on FY21 basis. Retain BUY rating with a 12-month price target of Rs410.

Exhibit 4: AUM (consol) growth has been decelerating



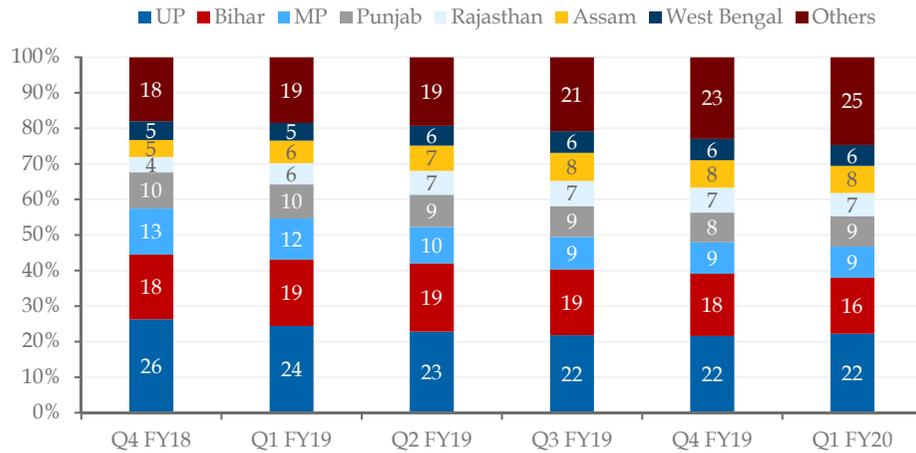
Source: Company, YES Sec – Research

Exhibit 5: Avg. monthly disbursements (stand-alone)



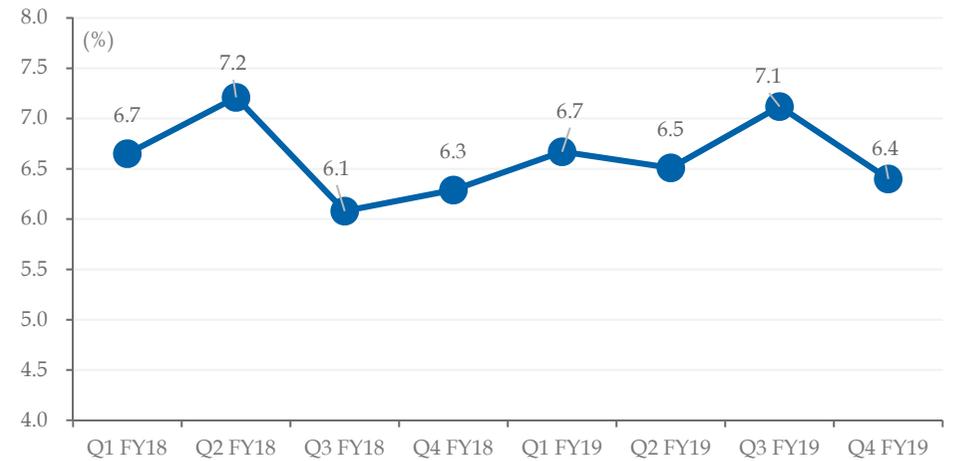
Source: Company, YES Sec – Research

Exhibit 6: Sustained regional diversification of AUM (consol)



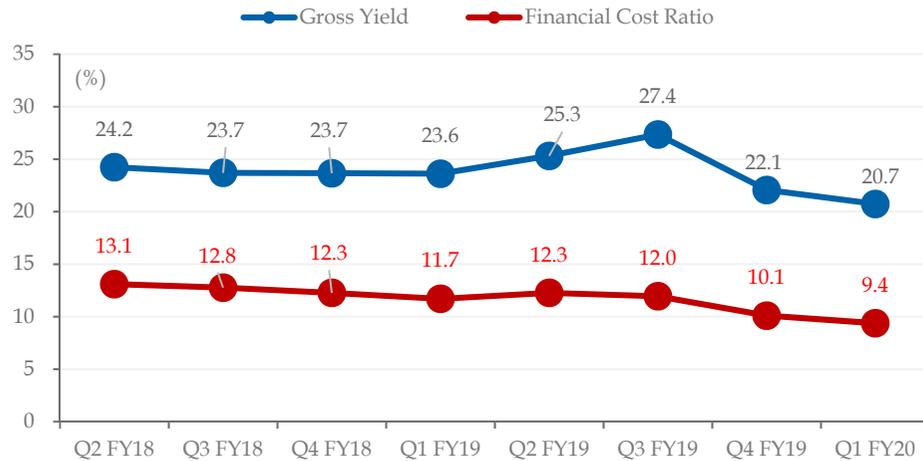
Source: Company, YES Sec – Research

Exhibit 8: Opex/Avg.AUM ratio (stand-alone) moves down



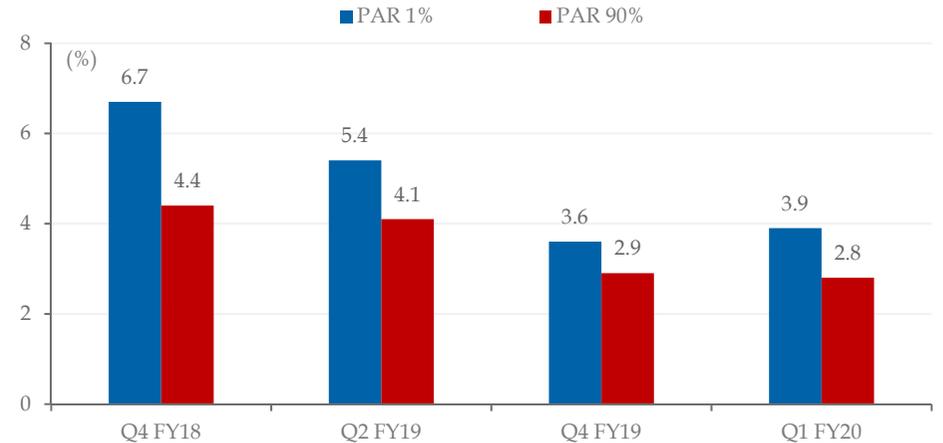
Source: Company, YES Sec – Research

Exhibit 7: Stand-alone spread steady



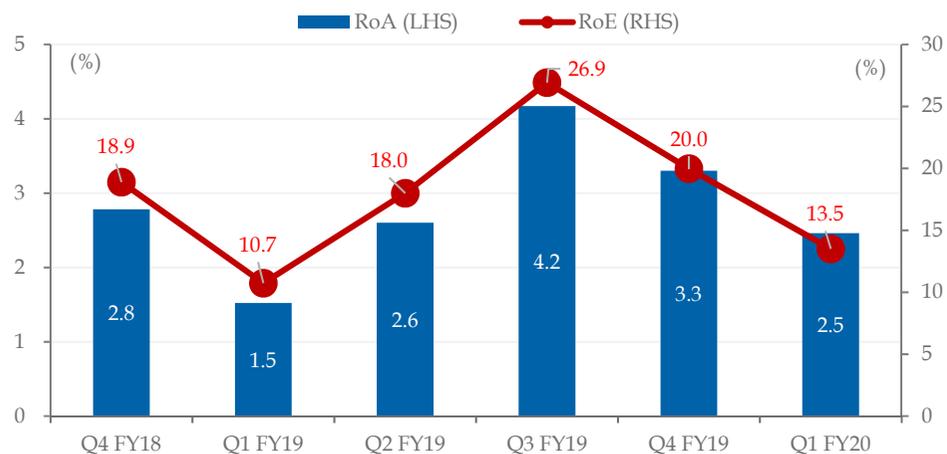
Source: Company, YES Sec – Research

Exhibit 9: Steady PAR trends



Source: Company, YES Sec – Research

Exhibit 10: Stand-alone RoA and RoE



Source: Company, YES Sec - Research

Exhibit 11: Valuation Summary (Consol.)

Y/e 31 Mar (Rs mn)	FY18	FY19	FY20E	FY21E
Total operating income	4,972	8,055	9,293	12,188
yoy growth (%)	-	62.0	15.4	31.1
Operating profit (pre-provisions)	1,603	3,682	4,212	5,975
Net profit	748	2,015	2,190	3,101
yoy growth (%)	-	169.4	8.7	41.6
EPS (Rs)	15.8	41.5	42.4	60.0
Adj.BVPS (Rs)	183.5	217.9	264.9	326.1
P/E (x)	17.4	6.6	6.5	4.6
P/BV (x)	1.5	1.3	1.0	0.8
ROE (%)	11.2	19.8	16.8	19.2
ROA (%)	1.4	3.1	2.9	3.3

Source: Company, YES Sec - Research

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BUY > 15%

ADD 5% to 15%

HOLD -15% to +5%

SELL > - 15%

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