Satin Creditcare Network Ltd - BUY

Smooth as Satin!

And the dream run continues…

Satin is a fast growing MFI with a leading share in large markets of Northern India. Although this is tantamount to regional concentration, the company has made a credible effort to diversify its portfolio across India. The conversion of eight MFIs into SFB offers enhanced growth opportunities to incumbents such as Satin, given they would have access to an increased pie of bank funding in the future. The company plans to augment capital to make the most of it. We expect Satin to register 45% pa growth in GLP over FY16-18.

Regulatory risks have abated

Spate of credible steps taken by RBI to regulate the MFI industry proactively have considerably reduced regulatory uncertainty in the sector. Thus, not so surprisingly, no state has invoked the Money Lenders Act since the AP crisis. The Microfinance Bill 2012 when passed by the Indian Parliament will eliminate the possibility of an AP-like event in the future.

Inherent profitability to improve further

Two drivers would cause incremental expansion in Satin's profitability over the next couple of years a) optimization of 10% margin cap and b) some improvement in opex-to-average AUM ratio. The former would be driven by a likely credit rating upgrade after equity raising and general softening in bank borrowing rates. The latter would be underpinned by productivity gains at young branches and value growth. But for an adverse event, asset quality should remain resilient; the Northern markets have been exhibiting robust credit trends.

High RoE + Robust earnings growth = Strong valuation

A material expansion in RoA should enable Satin to sustain a high RoE of 20-21%, at optimal levels of gearing. Backed by sustained brisk asset growth momentum and improved margins and productivity, Satin is likely to deliver 50%+ earnings growth over FY16-18. Factoring a capital raise of Rs.2bn through 15-16% equity dilution, the book value should almost double over the next two years. Thus, the stock trades at an attractive valuation of 2.1x P/ABV and 11x P/E on FY18 basis.

Analyst: Rajiv Mehta, Franklin Moraes

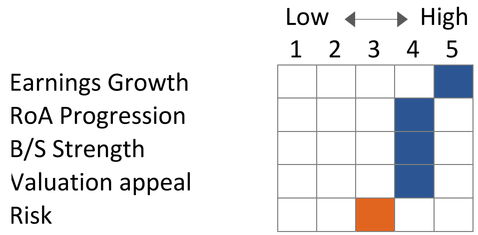
CMP (Rs) 434	12-mts Target (Rs) 530	Upside 22.1%

Stock data — **Sector: Financials**

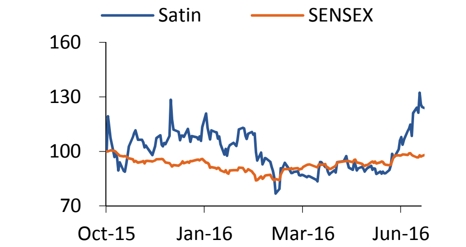
Sensex:	26,813	Bloomberg code:	SATIN IN
52 Week h/l (Rs):	490 / 264	BSE code:	539404
Market cap (Rs mn) :	13,875	NSE code:	SATIN
Enterprise value (Rs mn):	-	FV (Rs):	10
6m Avg t/o (Rs mn):	1.3	Div yield (%):	0

Prices as on June 21, 2016

Company rating grid



Stock performance



	1M	3M	1Y
Absolute return (%)	40.3	43.9	-

Shareholding pattern (%)

Promoter	36.2
FII+DII	0.1
Others	63.7

Financial summary

Y/e 31 Mar (Rs mn)	FY14	FY15	FY16E	FY17E	FY18E
Total operating income	855	1,467	2,686	4,164	6,086
yoy growth (%)	113.8	71.5	83.1	55.0	46.2
Operating profit (pre-provisions)	312	614	1,083	1,760	2,720
Net profit	156	322	580	915	1,410
yoy growth (%)	302.6	106.0	80.1	57.9	54.0
EPS (Rs)	6.8	12.6	18.3	25.1	38.6
Adj.BVPS (Rs)	63.6	78.6	102.2	166.9	203.5
P/E (x)	63.6	34.5	23.7	17.3	11.3
P/BV (x)	6.8	5.5	4.3	2.6	2.1
ROE (%)	11.6	18.6	22.1	19.5	20.6
ROA (%)	1.7	2.0	2.2	2.3	2.6

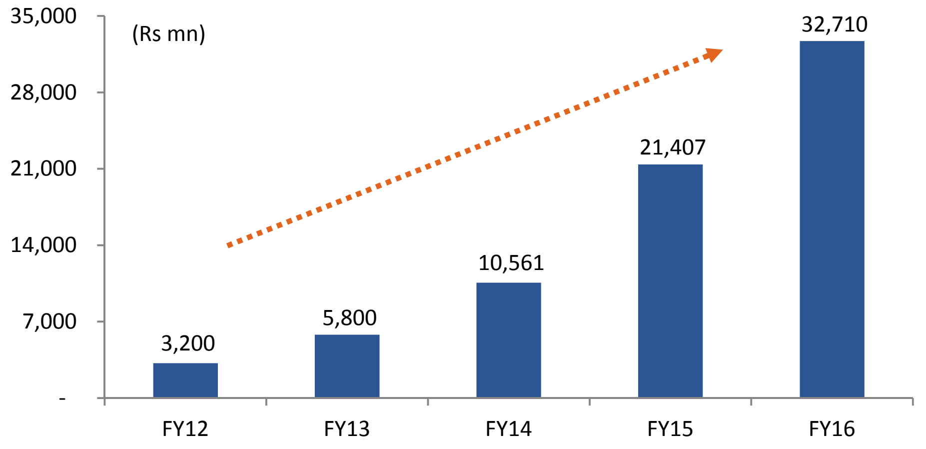
Source: Company, IIFL Wealth Research

Satin is the fifth largest MFI in India

Satin Creditcare Network Ltd is North India's largest and India's fifth largest MFI with an AUM of Rs32.7bn as of FY16. The company caters to 1.85mn borrowers through 431 branches spread across 16 states. It is a first mover and an old player in some of the large Northern States and therefore its loan book is heavily concentrated in the region. UP and Bihar contributed 41% and 18% of AUM respectively as of FY16. The states along with two other strongholds, Punjab and MP, contributed 88% of the AUM. Lack of presence in AP cushioned the company from the aftermath of the 2010 crisis. Satin's portfolio grew by a robust 36% in FY11 and the company was the first MFI to raise equity capital after the crisis. JLG portfolio accounts for more than 98% of the company's gross loan portfolio (GLP).

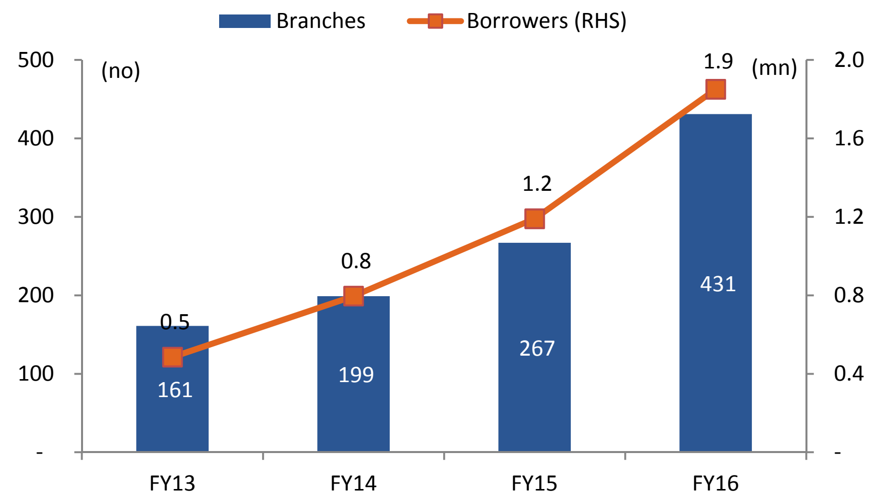
Over the past five years, Satin's AUM grew by an impressive 70% pa. The long-term credit rating of the company has seen two upgrades in the preceding four years and stands at a healthy BBB+. Satin enjoys a MFI grading of MFI 1, which is top notch. The loan outstanding per client is just above Rs.15,000, but loan amount disbursed per customer stood at ~Rs.24,200 in FY16. The average tenure of the book is 18-19 months and the loans have a fortnightly and monthly repayment cycle depending on the customer's choice.

Chart 1: Robust GLP growth over FY12-16



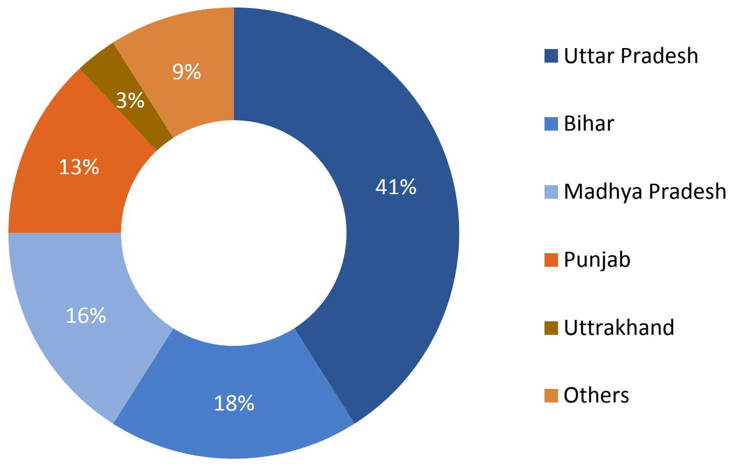
Source: Company, IIFL Wealth Research

Chart 2: Expansion of network driving customer outreach



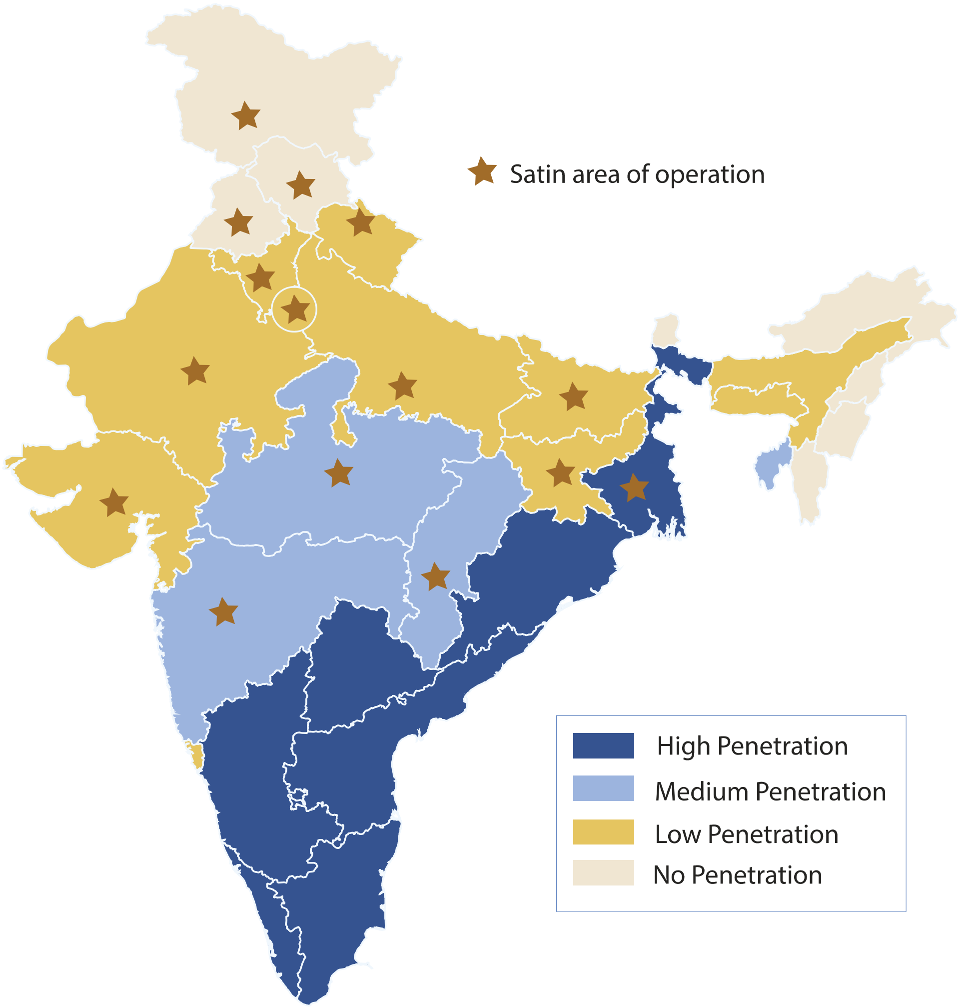
Source: Company, IIFL Wealth Research

Chart 3: State-wise GLP Mix



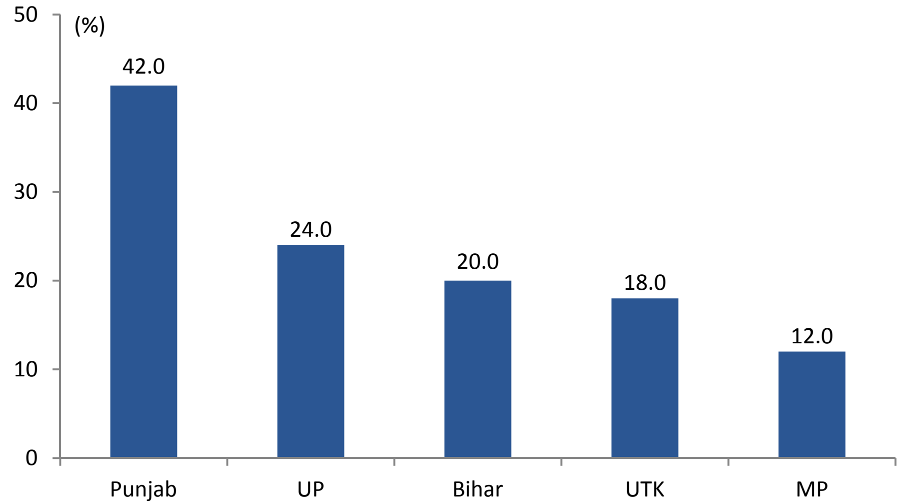
Source: Company, IIFL Wealth Research

Chart 4: Presence in states with low MFI penetration but high potential



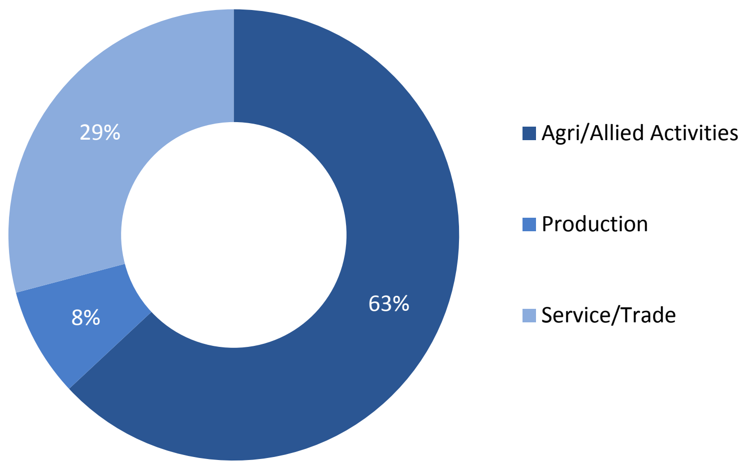
Source: *Sa-Dhan, Company, IIFL Wealth Research*

Chart 5: Satin enjoys leading market share in key states



Source: *Company, MFIN, IIFL Wealth Research*

Chart 6: GLP mix by economic activity



Source: *Company, IIFL Wealth Research*

Regulatory uncertainty wanes considerably in the sector

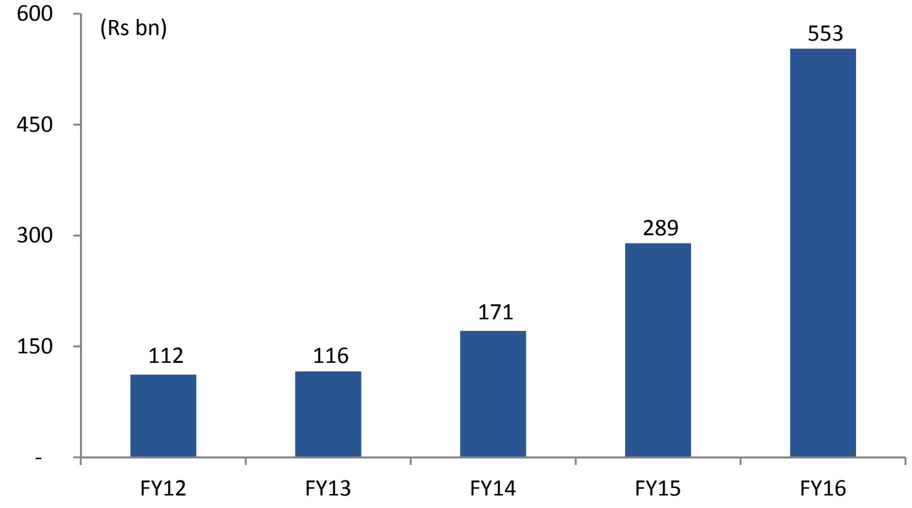
The MFI industry has done a full circle; after weathering phases of under-regulation and over-regulation, it is now rightly regulated. Since 2011, uncertainty surrounding operations of the sector have diminished significantly. We have tried to encapsulate the regulatory evolution of the sector below with a historical perspective:

In 2010, allegations of malpractices, including coercive collection methods, high interest rates, and over-indebtedness caused by multiple lending resulting in farmer suicides, led the Andhra Pradesh Government to enact the AP MFI Act, which prohibited existing MFIs from collecting loan outstanding and giving new loans until they register with the district authorities. Consequently, growth, asset quality, and financial position of AP-based MFIs saw a sharp deterioration. The MFI industry AUM contracted significantly since banks retrenched their funding to the sector citing high regulatory risks.

The AP crisis made the RBI delve deeper into the microfinance sector, given the sector's intrinsic linkages with the banking system. The central bank set up a high-level sub-committee chaired by Y H Malegam to study issues and concerns germane to the sector. The committee gave its recommendations within three months, which were broadly accepted by the RBI. In December 2011, the central bank came out with an exhaustive set of operating guidelines for the industry through the introduction of a new category called NBFC-MFIs. This included directions on all salient aspects of business such as net worth, qualifying assets, capital requirements, customer base by annual income, maximum loan amount, interest rate and margin caps, provisioning, transparency and communication, and recovery practices.

The larger intent of this framework was to facilitate organized growth of the industry, shielding borrowers from opaque and unfair practices as well as over-indebtedness, and eliminate regulatory uncertainties that cropped up after the AP crisis. Not so surprisingly, the MFI industry turned the corner and grew by a robust 45% pa over FY12-15, as the banks opened the funding tap again backed by reduced risk of recurrence of an AP-like event and retention of priority sector status for loans to MFI sector. Cognizant of the instrumental role the sector played in financial inclusion, RBI liberalized guidelines for the sector in the past two years: increased annual income threshold of borrowers, hiked the loan amount and total indebtedness limit, permitted flexible pricing through margin caps, and relaxed the cap for income-generating loans. This has increased the business scope for MFI players significantly.

Chart 7: MFI industry clocked robust growth since FY13



Source: *MFIN, IIFL Wealth Research*

RBI also made it mandatory for MFIs to share borrowers' credit data with Credit Information Companies (CIC) such as Highmark and Equifax. Consequently, these entities are privy to details of millions of small borrowers across India. The database helps MFI players evaluate disbursal to a potential borrower; enables fetching of information with regard to the borrower's payment history and no of loans availed. Before the AP crisis, MFIs did not have any way to check whether a potential borrower had loans pending from other players. Thus, it was impossible to gauge the level of the borrower's indebtedness. Although the database of CIC does not cover a borrower's bank loan exposure or social indebtedness; along with local checks by MFIs, it has contained delinquencies in the sector significantly.

In recent years, RBI has also accorded self-regulatory organizations (SRO) status to industry associations of MFIs, Microfinance Institutions Network (MFIN), and Sa-Dhan. These SROs ensure effective supervision of the functioning of NBFC-MFIs. They monitor the latter's regulatory compliance and code of conduct and have a dispute redressal mechanism for clients of MFIs. It is mandatory for MFIs to become a member of at least one CIC and one SRO, which ensures credit checks and regulatory adherence.

Backed by the above steps of RBI towards adequately regulating the MFI industry, borrowers' grievances have reduced substantially. No state has invoked the Money Lenders Act since the AP crisis, which is testimony to this fact. The Microfinance Bill 2012, which is pending passage in the Indian Parliament, if passed, could eliminate the possibility of recurrence of an AP-like event in the future.

Table 1: Extant RBI regulations for NBFC-MFIs on key aspects

Parameter	Regulation
Networth	Minimum Net Owned Funds of Rs50mn (for NBFC-MFIs registered in North Eastern Region, it is Rs20mn).
Qualifying Assets	Minimum 85% of net assets should be 'qualifying assets'
Capital Adequacy	Overall CAR should not be less than 15% of aggregate risk weighted assets. Tier-II Capital shall not exceed 100% of Tier I Capital.
Annual Income of Borrowers	Household annual income should not exceed Rs.1,00,000 in rural areas or Rs. 1,60,000 in urban and semi-urban areas.
Loan Amount	Loan amount to not exceed Rs. 60,000 in the first cycle and Rs. 1,00,000 in subsequent cycles
Overall Indebtedness	Total indebtedness of the borrower to not exceed Rs. 1,00,000, excluding loans availed for meeting education and medical expenses
Mutiple Lending	A borrower cannot avail loan from more than two MFIs at a time
Loan Tenure	Tenure of the loan not to be less than 24 months for loan amount in excess of Rs. 15,000
Margin Cap	Margin Cap of 10% over cost of funds for large NBFC-MFIs (portfolios >Rs.1bn) and 12% for others
Interest Rate	Interest rate charged to be lower of a) Cost of Funds + Margin Cap or b) avg. base rate of the five largest commercial banks multiplied by 2.75
NPL & Provisioning	Non-standard asset would mean a loan for which interest/principal payment is overdue for 90 days or more. Provisioning of 50% on assets overdue between 90-180 days and 100% on assets overdue >180 days

Source: *RBI, IIFL Wealth Research*

Large addressable market; no constraints on funding

The demand for organized micro finance in India is unprecedented given the glaring under-penetration of the formal financial system. The penetration level of micro finance remains low at less than 20% in most of the states in India, including the densely populated ones such as UP and Bihar. With overall economic growth expected to pick-up, especially the rural consumption and activity, growth in terms of borrowers' outreach should stay strong in the context of deeper regional penetration being pursued by MFIs. Considering that ticket sizes are on the rise both for new borrowers and the existing ones (as they move to the subsequent cycle), value growth would complement volume growth significantly. Overall, we believe that the industry could grow comfortably by 25-35% pa over the next few years, notwithstanding some calibration from players who received SFB licenses. Therefore, growth should not be a constraint for players from a demand perspective.

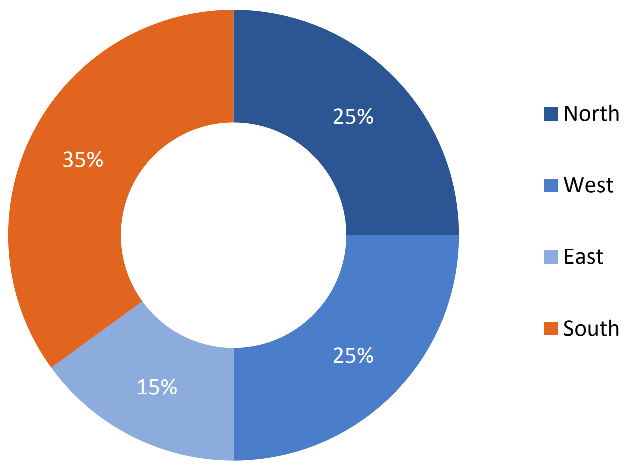
On the supply side, i.e., bank funding, which is the raw material for growth, availability has increased significantly. Lenders' confidence has been restored by various regulatory steps taken by the RBI, which to a large extent, has immuned the sector from any adverse action from state governments. RBI supports the MFI industry not just for its significant role in financial inclusion, but also because it is a viable and strong lending model. The retention of PSL classification for loans to the sector has essentially enabled abundant availability of funding to the industry at reasonable rates. Consequently, MFI players were able to lend at a competitive rate vis-a-vis the unorganized sector, thus augmenting penetration of the organized financial system. Banks with gaps in priority lending invest in pass-through certificates from MFIs, wherein underlying loans are priority sector compliant. To a lesser extent, they also purchase loan receivable pools from MFIs to meet their target. In the most recent PSL guideline, RBI has asked large foreign banks to achieve a PSL target on par with domestic banks, which should increase the demand for MFI lending.

Table 2: State-wise MFI client penetration

Region	MFI Clients (lakh)	Population (cr)	Households (cr)	Penetration (%)
Tamil Nadu	56.5	7.8	1.6	36.3
Karnataka	38.2	6.6	1.3	28.9
Odisha	21.4	4.4	0.9	24.1
Kerala	12.2	3.4	0.7	18.0
Madhya Pradesh	28.1	8.0	1.6	17.5
Maharashtra	37.1	12.1	2.4	15.3
West Bengal	21.9	9.5	1.9	11.5
Punjab	5.6	3.0	0.6	9.5
Gujarat	12.3	6.6	1.3	9.3
Haryana	4.9	2.8	0.6	8.8
Bihar	19.3	11.7	2.3	8.3
Uttar Pradesh	31.3	21.6	4.3	7.3
Rajasthan	7.5	7.5	1.5	5.0

Source: *MFIN, Company, IIFL Wealth Research*

Chart 8: Regional mix of MFI industry

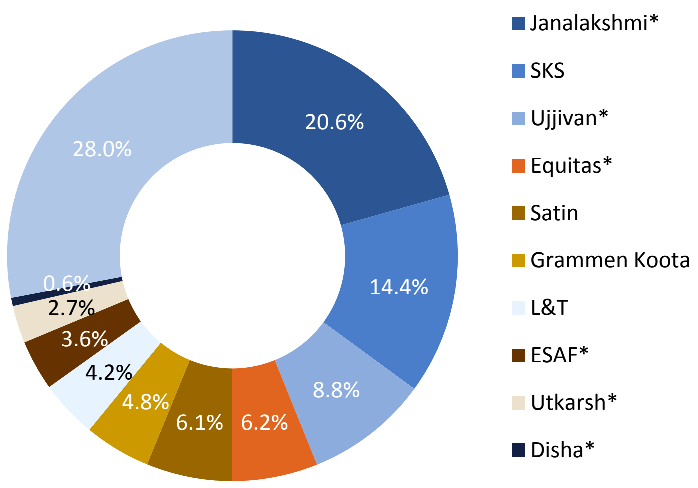


Source: *MFIN, IIFL Wealth Research*

Eight MFIs to convert into SFB; this presents greater opportunities for incumbents

RBI's strong confidence on the MFI industry was visible in its issuance of a universal banking license to Bandhan in 2014 and 8 out of 10 SFB licenses to MFIs in 2015. This creates a very interesting landscape in a fast growing market. Our interaction with a few significant players who have received SFB licenses makes us believe that they might under grow the industry in the coming years as their core priority would be to transition successfully into a bank through the introduction of variety of loan products, liability products, and fee-based services to the existing borrower and regional base. So logically, a large amount of management bandwidth of these SFB-MFIs would be consumed by business, technology, marketing, and HR initiatives. Further, once they convert, they will cease to qualify for PSL and thus, a huge supply of bank funding would go to other players. Aided by this, incumbents should gain further share of the market. Post the conversion of eight MFIs into SFB, Satin will be the second largest player after SKS. Thus, the company is well placed to grow at a robust pace over the next three to four years.

Chart 9: Market share of major players in MFI industry



Source: *MFIN, IIFL Wealth Research*

** Six of the Eight MFIs those have received SFB license. Form 42-43% of the industry.*

Satin is diversifying its franchise regionally to mitigate risks

Satin has high AUM concentration in the Northern part of India particularly in UP, Bihar, and Punjab whose combined contribution is at 72% of gross loan portfolio (GLP). If one includes MP, where the company entered before Punjab and Bihar, the AUM concentration increases to 88%. However, among the above states, the distribution has got more balanced since FY13 with the share of UP, the largest market, coming off to 41% of GLP from 59%. That said, Satin has entered many new states over the past three years to mitigate risk arising from regional concentration. So far, the company has consciously not started commercial operations in TN, Karnataka, Odisha, and Kerala, which already have higher level of MFI customer penetration. The diversification efforts of the company are manifested in its strong 36% CAGR in branch networks during FY13-16.

Satin has seen strong growth in newer states of Haryana, Maharashtra, Gujarat, Chhattisgarh, and Jharkhand, which now contribute 7% of GLP. Sustained investments in business capacity (network and resources) in these states and improved productivity of existing branches should drive further diversification in AUM in the years to come. UP and Bihar will remain pivotal markets for Satin, as it is one of the oldest players with a deep understanding of borrowers. Further, UP and Bihar are the largest and one of the least penetrated MFI markets in India. Satin has a leading market share of more than 20% in both these states.

Table 3: State diversification of AUM underway

State	GLP (Rs mn)	FY16 Share (%)	FY13 Share (%)	FY13 - FY16 (CAGR %)
Uttar Pradesh	13,385	40.9	59.0	58.0
Bihar	5,803	17.7	7.0	138.0
Madhya Pradesh	5,077	15.5	13.0	90.0
Punjab	4,151	12.7	0.0	431.0
Uttarakhand	1,062	3.2	3.0	75.0
Delhi & NCR	651	2.0	15.0	(10.0)
Others	1,811	7.9	2.0	0.0
Rajasthan	768	2.3	2.0	103.0
Haryana	614	1.9	0.0	193.0
Maharashtra	517	1.6	-	NA
Jharkhand	235	0.7	-	NA
Chhattisgarh	180	0.6	-	NA
Gujarat	168	0.5	-	NA
West Bengal	40	0.1	-	NA
Jammu	36	0.1	0.0	291.0
Himachal Pradesh	16	0.0	-	NA
Chandigarh	5	0.0	0.0	3.0

Source: *Company, IIFL Wealth Research*

Recently introduced product financing and MSME financing

In October 2015, Satin started solar lamp financing for its borrowers with the motive of improving their economic and social profile. The interest rate charged in marginally lower than MFI loans as the company receives a small payout from the manufacturer also. The company plans to finance more products in the range of Rs 4,000-5,000 which are not purely meant for consumption. AUM in this segment stood at Rs.113mn as of FY16 representing more than 200,000 customers.

Very recently, the company also launched MSME loans which will not be a part of qualifying assets. With the near term focus on systems, processes, portfolio quality, etc, the company does not intend to grow this book aggressively for the next 12 months. In this segment, the loan tickets would be in the range of Rs 100,000 to Rs. 1,000,000 with a minimum and maximum tenure of loan being 24 months and 60 months respectively. The rate of interest is 23%.

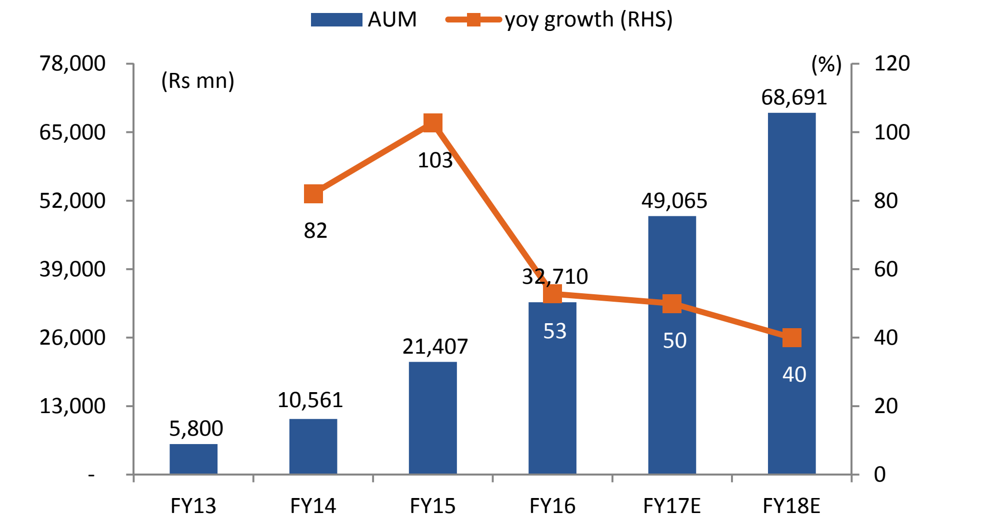
Capital raising to support a sustained robust asset growth

As discussed before, Satin is sweetly positioned for robust growth in the coming years. The management has already guided to achieve 53% growth in GLP during FY17 thus reaching a size of Rs. 50bn by the year end. In the context of our constructive view on the industry growth, and more so for incumbents, we believe that company should be able to achieve the stated guidance. Over the longer term, growth would be driven by the duality of further penetration of newer markets and sustained strong growth in existing large markets. The more than doubling of the branch network in the preceding two years is generating strong growth in customer addition. Additionally, average disbursement per borrower has been increasing at 10-15% pa on the back of general inflation and borrower migration to subsequent cycles. Thus, the secular value growth would amplify the impact of volume growth leading to a robust asset growth. The company normally provides 10-20% growth in loan amounts to borrowers in subsequent cycles if they have a good track record and there is a genuine need to grow their businesses.

In April 2015, RBI significantly relaxed norms for annual household income, maximum loan amounts, and overall indebtedness of the borrower. This has significantly enhanced the scope of growth for MFIs, as they can reach out to a wider customer base and meet the demands of higher loan amounts from existing customers with a healthy credit track record. As customers cannot borrow from more than two MFIs, liberalization in loan amount will enable them to borrow more for occupational requirements.

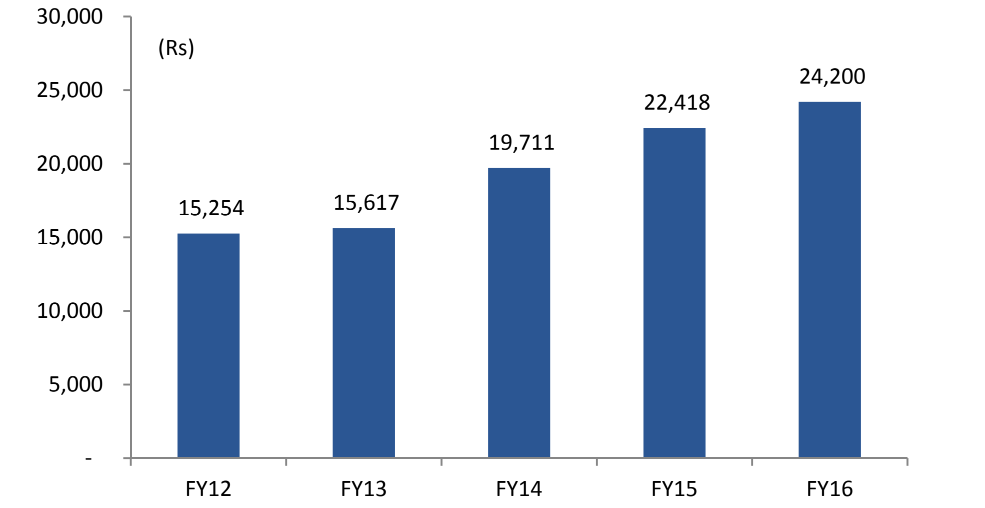
To deliver on its strong growth guidance in the current year and capitalize on a favourably changing industry landscape in the medium term, Satin would need capital as its Tier-1 ratio stands at a modest 11.3%. The company intends to raise equity capital in order to meet growth requirements until FY18. Based on this plan, we believe that Satin could raise close to Rs.200cr by diluting 15-16% of its equity.

Chart 10: Impressive portfolio growth to continue



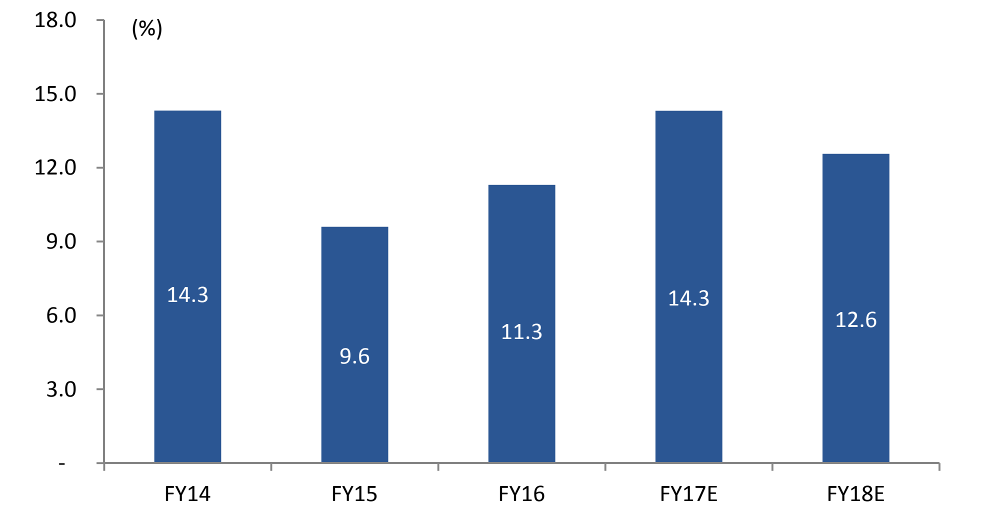
Source: *Company, IIFL Wealth Research*

Chart 11: Average loan disbursed per customer has been rising



Source: *Company, IIFL Wealth Research*

Chart 12: Tier-1 capital to be bolstered through equity raising



Source: *Company, IIFL Wealth Research*

Probable rating upgrade to optimize margins

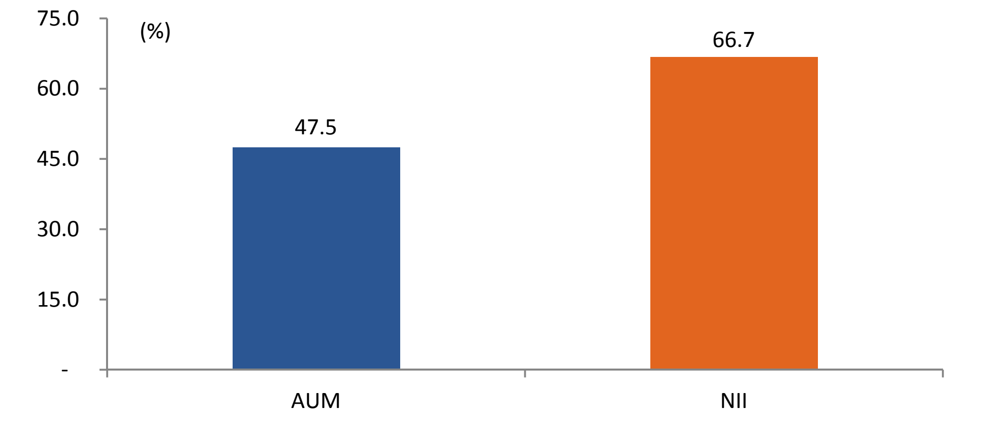
A relatively higher cost of borrowing at ~14.5% has been an impediment to full realization of the 10% margin cap prescribed by the RBI. As interest rate charged by the company on MFI loans is 24%, it is working with margins close to 9.5%. Within the borrowing mix (excluding securitization and assignments), NCD and sub-debt form 20%, a large portion of which was raised at a higher cost in the past. While rates on bank funding have reduced, the company has explored other sources of borrowing such as financing from MUDRA, NABARD, and SIDBI at more competitive rates. It is highly likely that once the balance sheet is bolstered through the planned equity capital raise, the long-term credit rating of Satin could get upgraded, which should accelerate softening of borrowing costs. Current credit rating of the company is BBB+, which is two notches below comparable MFI players. Further, in the long term, the availability and cost of the funding from banks would only improve as Satin would emerge as a pre-dominant MFI route for PSL lending after the conversion of SFB-MFIs. The expected seminal fall in funding cost would lead to margin optimization (inching-up to 9.7-9.9% from current 9.5%), while enabling the company to cut interest rates on loans and improve its competitive position.

Headroom for improving productivity; investment in technology could preclude Opex/AUM ratio from improving materially

Satin has a lean cost structure as it operates through a hub and spoke model. For every ~25 branches, the company has a regional office that controls those branches. The opex-to-average AUM ratio stood at 6.7% for FY16, which was one of the lowest in the industry. It has corrected significantly from 7.7% in FY13, owing to the substantial scale achieved. Other parameters that reflect the extent of operating leverage gained over the past three years include doubling of GLP per branch and GLP per loan officer to Rs.76mn and Rs.12mn respectively. The number of clients per loan officer has increased by close to 40% over FY13-16. Additionally, operating efficiency has flowed from consistent material improvement in loan amount per borrower.

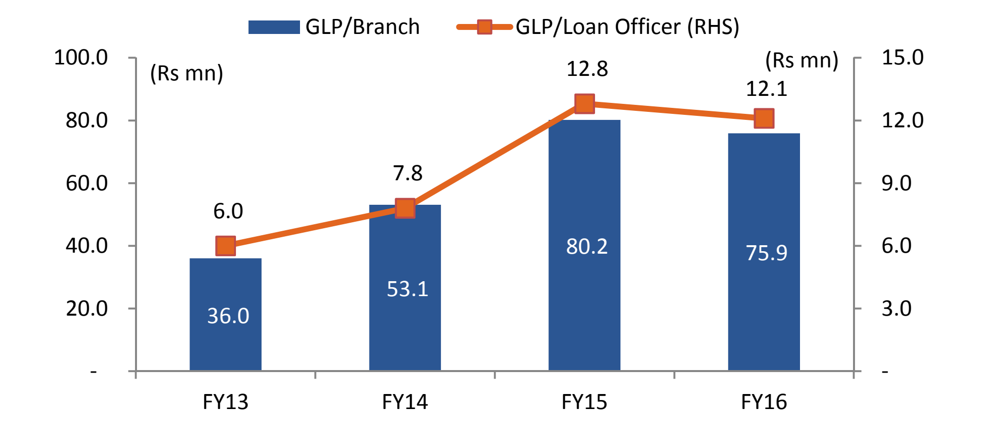
Considering that value growth is likely to continue and a number of young branches would move towards optimal productivity, there is legroom to trim opex-to-average AUM ratio further. However, in the near term, this may be offset by investments in technology initiatives both at the front end and back end; moreover, this has been an area where Satin has been lagging its peers and needs to catch-up fast.

Chart 13: NII growth to outpace GLP growth over FY16-18



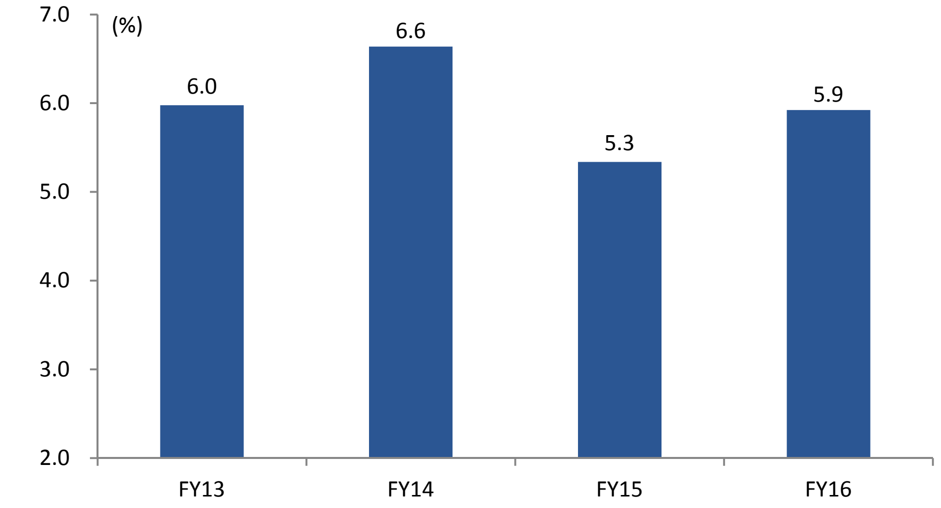
Source: *Company, IIFL Wealth Research*

Chart 14: Satin has reaped benefits of scale



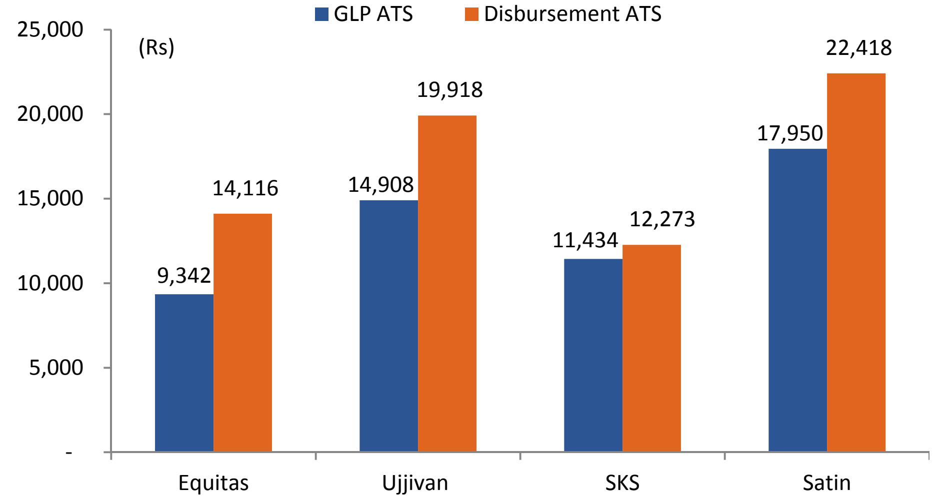
Source: Company, IIFL Wealth Research

Chart 15: Opex/Avg. AUM ratio has materially come-off



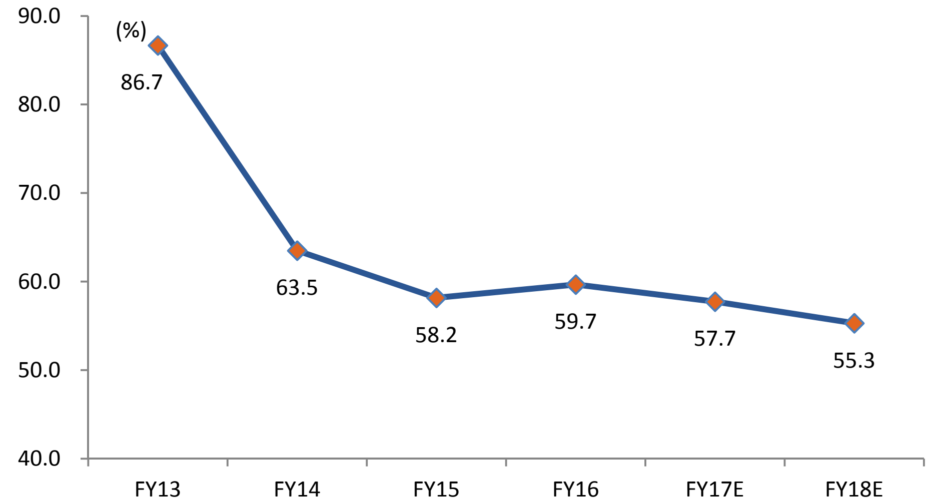
Source: Company, IIFL Wealth Research

Chart 17: Average ticket size (ATS) of loans higher for Satin



Source: MFIN, IIFL Wealth Research

Chart 16: Cost/Income ratio should trend down further

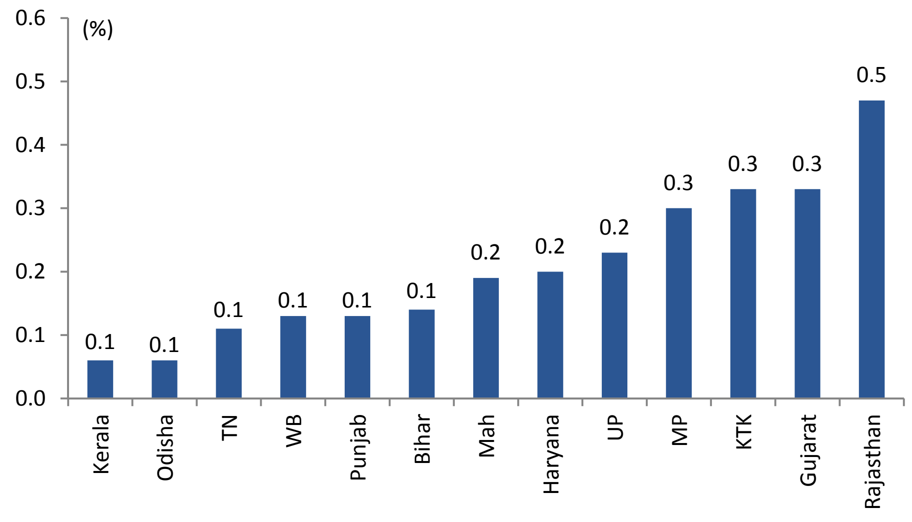


Source: Company, IIFL Wealth Research

Asset quality has been robust

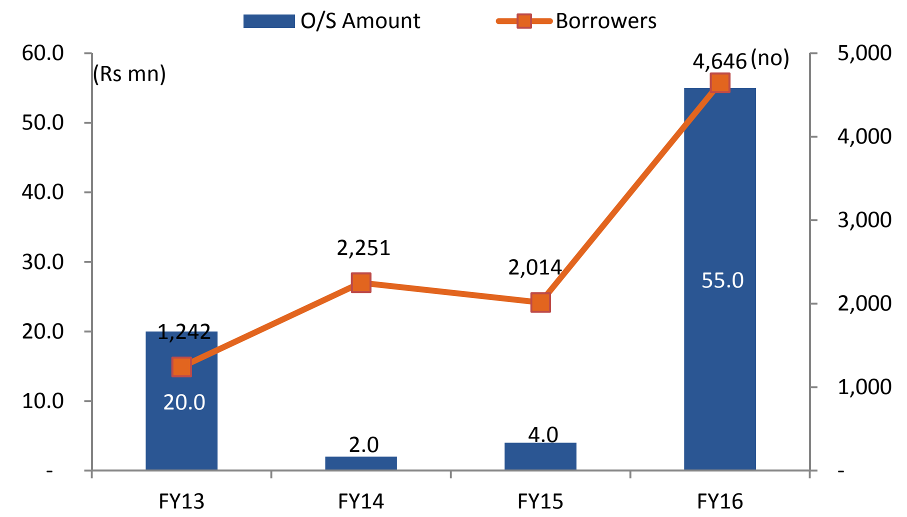
As has been the case with the industry, asset quality of Satin has been robust underpinned by negligible default rates. While substantial higher AUM concentration in UP and Bihar could be perceived as risks from an event-risk perspective, the portfolio behaviour in this region for the industry has been as strong as the Southern states. Satin has been present in UP for more than eight years and has not experienced any portfolio related challenges ever. Credit cost in the industry has been pretty low for the past several years. For Satin, it has not exceeded 1% including standard asset provisioning in the past three years. Barring any adverse event in any of its key markets, it is unlikely that credit cost would breach the 1% mark in the future.

Chart 18: Credit quality (PAR 90) has been strong across states for the industry as a whole



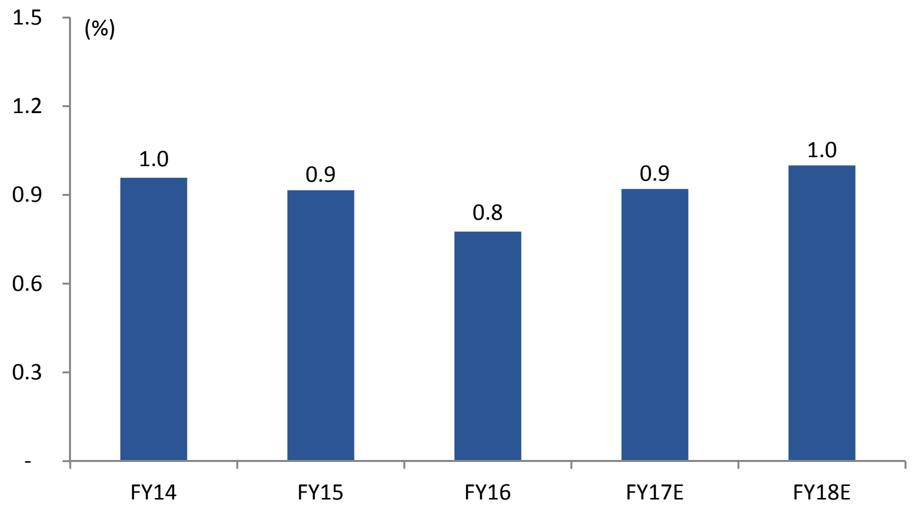
Source: MFIN, IIFL Wealth Research

Chart 19: Satin's PAR 90 portfolio negligible at the end of FY16



Source: Company, IIFL Wealth Research

Chart 20: Credit cost to remain in a narrow band of 0.8-1%

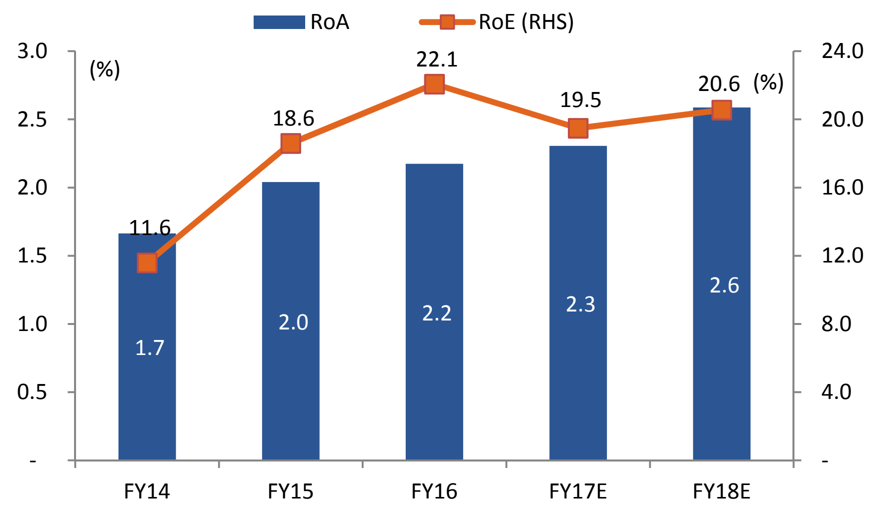


Source: Company, IIFL Wealth Research

Profitability to improve; valuation to re-rate

We expect Satin's RoA to improve by 40bps over the next two years on the back of a) optimization of margin cap b) little improvement in opex-to-average AUM ratio, and c) reduction in leverage. Thus company's RoA would converge towards the level of peers who are operating at much lower balance sheet gearing. The improvement in inherent profitability will enable Satin to sustain impressive RoE of 20-21% at optimal leverage levels. The capital raising would bolster the book value and thus support valuation re-rating over the medium term. Given our expectation that company could deliver 50%+ earnings growth over FY16-18, the valuation is attractive on P/E basis too.

Chart 21: RoA to expand and RoE to stay elevated



Source: Company, IIFL Wealth Research

Table 4: Benchmarking with other large MFIs

Particular	Equitas	Ujjivan	SKS	Satin
GLP (Rs mn)	3,283	4,695	7,677	3,271
yoy growth (%)	53.0	43.4	84.0	52.8
Market Share (%)	6.1	8.7	14.3	6.1
States (No)	10.0	24.0	19.0	16.0
Branches (No)	397	469	1,191	431
Loan Officers (No)	3,055	4,105	6,323	2,368
Borrowers (No)	2.7	3.1	4.6	1.9
yoy growth (%)	19.4	38.9	26.9	55.5
Gross NPL (%)	1.3	0.2	0.1	0.2
RoA (%)	3.1	3.7	4.2	2.2
RoE (%)	13.3	18.3	25.1	22.1
CAR (%)	24.0	24.1	23.1	16.8
LT Credit Rating	A	A	A+	BBB+

Source: *MFIN, Company, IIFL Wealth Research*

Note: *1) NPL, RoA and RoE of Equitas is on consolidated basis 2) Loan Officer data of Satin and Ujjivan is as of Q3 FY16 and Q2 FY16 respectively*

Key Concerns

- High regional concentration of AUM makes Satin vulnerable to any adverse development in its key states of UP, Bihar, Punjab and MP. The incident could be political, social or economic.

- Increasing loan amount per customer in JLG segment and growth in MSME lending could exert upward pressure on NPLs and credit cost in years to come.

Financials

Balance sheet

Y/e 31 Mar (Rs mn)	FY15	FY16	FY17E	FY18E
Equity Capital	254	315	365	365
Preference Capital	60	0	0	0
Reserves	1,681	2,925	5,790	7,200
Shareholder's funds	**1,935**	**3,240**	**6,155**	**7,565**
Long-term borrowings	8,117	13,335	18,002	24,663
Long term provisions	14	29	37	49
Total Non-current liabilities	**8,131**	**13,364**	**18,040**	**24,712**
Short Term Borrowings	323	1,447	1,953	2,676
Other current liabilities	9,501	14,752	19,915	27,284
Short term provisions	157	231	300	390
Total Current liabilities	**9,981**	**16,430**	**22,169**	**30,350**
Total Equities and Liabilities	**20,106**	**33,034**	**46,364**	**62,627**
Assets				
Fixed Assets	144	213	256	307
Non-current investments	1	1	1	1
Deferred tax assets (Net)	53	88	131	197
Long-term loans and advances	4,023	5,419	8,129	11,380
Other non-current assets	1,102	1,245	1,494	1,793
Total Non-current assets	**5,322**	**6,965**	**10,010**	**13,677**
Trade Receivables under loan contracts	5	16	16	16
Cash and cash equivalents	3,487	7,098	7,907	9,131
Short-term loans and advances	10,750	17,576	26,364	36,910
Other current assets	547	1,378	2,067	2,894
Total Current assets	**14,789**	**26,068**	**36,354**	**48,950**
Total Assets	**20,110**	**33,033**	**46,364**	**62,627**

Income statement

Y/e 31 Mar (Rs mn)	FY15	FY16	FY17E	FY18E
Income from Operations	2,929	5,049	7,489	10,481
Interest expense	(1,775)	(2,899)	(3,995)	(5,132)
Net interest income	**1,154**	**2,150**	**3,494**	**5,349**
Non-interest income	313	536	670	737
Total op income	**1,467**	**2,686**	**4,164**	**6,086**
Total op expenses	(853)	(1,603)	(2,404)	(3,366)
Op profit (pre-prov)	**614**	**1,083**	**1,760**	**2,720**
Provisions	(144)	(208)	(376)	(589)
Profit before tax	**470**	**875**	**1,384**	**2,131**
Taxes	(148)	(296)	(469)	(722)
Net profit	**322**	**580**	**915**	**1,410**

Key Ratios

Y/e 31 Mar (Rs mn)	FY15	FY16	FY17E	FY18E
Growth matrix (%)				
Net interest income	82.0	86.3	62.5	53.1
Total op income	71.5	83.1	55.0	46.2
Op profit (pre-prov)	96.6	76.5	62.5	54.6
Net profit	106.0	80.1	57.9	54.0
Advances	86.9	55.7	50.0	40.0
Borrowings	85.2	64.6	35.0	37.0
Total assets	79.2	64.3	40.4	35.1
Profitability Ratios (%)				
NIM	7.2	7.9	8.5	9.1
Non-int inc/Total inc	21.3	20.0	16.1	12.1
Return on Avg Equity	18.6	22.1	19.5	20.6
Return on Avg Assets	2.0	2.2	2.3	2.6
Per share ratios (Rs)				
EPS	12.6	18.3	25.1	38.6
Adj.BVPS	78.6	102.2	166.9	203.5
Other key ratios (%)				
Cost/Income	58.2	59.7	57.7	55.3
CAR	15.7	16.8	19.4	17.2
Tier-I capital	9.6	11.3	14.3	12.6
Gross NPLs/Loans	0.0	0.2	0.3	0.5
Credit Cost	0.9	0.8	0.9	1.0
Net NPLs/Net loans	0.0	0.1	0.2	0.3
Tax rate	31.6	33.9	33.9	33.9

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