

Muted on AuM, focus on operational improvements

Satin results were a miss on AuM/NII front due to muted disbursements and higher repayments. Though opex was elevated, assignment income protected PPOP. Asset quality saw a slight blip due to flood related stress in the eastern portfolio though recoveries have started in that portfolio. Process re-engineering and tighter credit checks led to muted disbursements in H1FY20, though H2 being higher than H1 we see 30% rise in disbursements. Structurally the company is focused on credit quality over growth. Focus is to reduce the per district exposure to less than 1%. We see RoA/RoE to come in at 2.9% / 21.4% in FY21E. Valuation at 0.8x is attractive. We retain our Buy rating and TP to Rs410.

Q2FY20 results – Weak on AuM, assignment income protected PPOP

AUM growth came in lower at 15.3% (vs est. of 20.1%) given higher repayments leading to a slight miss on NII at Rs.1.2bn (-21.3% YoY) vs est. of Rs.1.3bn. Other income was stronger at Rs.825mn aided by healthy growth in assignment/BC portfolio which stands at Rs17.8bn (vs Rs5.6bn YoY). Cost to AuM was a bit elevated at 7.0% as the management has been investing in new systems and processes. PPOP at Rs.858mn was lower (est. of Rs901mn). Asset quality saw a minor blip with GNPA/NNPA rising by 30bps/20bps to 3.1%/1.4% driven by the eastern portfolio and lower AuM growth. Provisions though were lower at Rs.96mn (est. Rs.160mn). PBT was largely in line at Rs.762mn and tax rate was 28.2% (est. 36%). PAT came in higher at Rs.547mn.

Disbursements to pick up in H2FY20

Disbursements at Rs18.1bn were muted due to (1) flood impact in Assam, Bihar, Orissa and MP (2) process re-engineering that led to higher rejection rates initially. Rejection rates that were in range of 70-75% have come down to 20-25% now. Also, higher repayments (29% of opening AuM vs average 25% for the last 8 quarters) drove the AuM growth lower. H1FY20 disbursements were tepid at Rs36.3bn though H2 is usually stronger than H1 (trend is 40% higher than H1). We are factoring a 30% growth in H2 disbursements over H1 which might see the AuM grow by 21.4% for FY20. Customer growth at 15.2% YoY to 3.63mn. Focus is on liquidity due to a challenging environment and it has moved up from 45days to 90 days (will be maintained at Rs14-15bn).

Target to improve portfolio quality

The flood impact in the abovementioned states led to a QoQ GNPA spurt of 30bps to 3.1% though net provisioning at Rs140mn was lower QoQ as there was a recovery of Rs110mn from the written-off pool. 92% of the portfolio has a collection efficiency of 99.6%. The company is focusing to reduce the per district exposure to less than 1% (risen from 85% in FY16 to 96.3% in H1FY20). Structurally the company would prefer to focus on asset quality over growth. We are cautiously baking in provision costs of ~145bps each for FY20/FY21.

Valuation and risks

We have lowered our AUM growth and raised our provision estimates for FY20/FY21E however, due to the beneficial tax impact FY21 ABVPS may increase. We like Satin basis its business model and return ratios. We maintain our multiple of 1.5x FY21 ABV and TP at Rs410. Risks to our call include higher opex and spike in NPA.

Financial and valuation summary

YE Mar (Rs mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	FY19	FY20E	FY21E
NII	1158	1472	(21.3)	1209	(4.2)	5,405	5,339	5,950
PPoP	904	874	3.4	829	9.0	3,577	3,958	4,943
Provisions	140	184	(23.9)	180	(22.2)	521	701	749
PAT	549	444	23.6	414	32.7	1,949	2,313	3,137
AUM growth (%)	15.3	39.5	(24.1)	19.8	(4.4)	25.3	21.4	25.2
NIM (%)	12.3	13.4	(112)bps	11.4	96bps	8.9	8.6	8.6
C / I (%)	54.7	51.4	3.3	54.6	0.1	51.3	51.9	48.7
GNPA (%)	3.1	4.1	(100)bps	2.8	30bps	2.8	3.2	3.1
RoA (%)	3.3	2.6	66bps	2.5	80bps	2.6	2.5	2.9
RoE (%)	16.5	18.0	(1.5)	13.5	3.0	19.1	19.1	21.4
P / ABV	-	-	-	-	-	1.4	1.3	0.8

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:	Rs398/183
Market cap:	Rs12bn
Shares outstanding:	52mn
Free float:	54%
Avg. daily vol. 3mth:	50,465

Source: Bloomberg

Changes in the report

Rating:	Unchanged
Target Price:	Unchanged
PBT:	(3.7)% FY20E, (1.0)% FY21E

Source: Centrum Research

SATIN relative to Nifty Midcap 100



Source: Bloomberg

Shareholding pattern

	Sep-19	Jun-19	Mar-19	Dec-18
Promoter	29.7	29.7	27.9	26.7
FIIs	13.5	13.3	14.8	14.9
DIIs	23.2	23.9	21.7	20.6
Public/oth	33.6	33.1	35.6	37.8

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	5,339	8,694	(38.6)	5,950	10,825	(45.0)
PPoP	3,958	4,157	(4.8)	4,943	5,207	(5.1)
PBT*	3,257	3,383	(3.7)	4,193	4,234	(1.0)
AUM growth (%)	21.4	24.7	(3.3)	25.2	26.4	(1.2)
GNPA	3.2	3.1	12bps	3.1	3.3	(25)bps

Source: Centrum Research estimates *Instead of PAT due to change in tax rate

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q2FY20	Actual Q2FY20	Variance (%)
NII	1,158	1,256	(7.8)
PPoP	904	901	0.3
PBT*	764	741	3.1
AuM growth	15.3	20.1	(4.8)

Source: Bloomberg, Centrum Research estimates *vs PAT as change in tax rate.

Satin versus Nifty Midcap 100

	1m	6m	1 year
SATIN IN	(20.7)	(32.6)	4.1
Nifty Midcap 100	8.2	(2.0)	(3.5)

Source: Bloomberg, NSE

Key assumptions

YE Mar (Rs mn)	FY20E	FY21E
AUM growth (%)	21.4	25.2
NIM (%)	8.6	8.6
Other inc / Assets (%)	1.1	1.0
Cost / Assets (%)	6.6	7.1
Provision costs	1.5	1.4

Source: Centrum Research estimates

Valuations

We have lowered our AUM growth and raised our provision estimates for FY20/FY21E however, due to the beneficial tax impact FY21 ABVPS may increase. We like Satin basis its business model and return ratios. We maintain our multiple of 1.5x FY21 ABV and TP at Rs410. Risks to our call include higher opex and spike in NPA.

Valuations

FY21E ABVPS (Rs)	282.3
Historical P / ABV (x)	2.1
Premium assigned (%)	(30.9)
Ascribed P / ABV (x)	1.5
Fair value / share (Rs)	410

P/BV mean and standard deviation



Sensitivity analysis

		Provision cost				
		+10bps	+5bps	Current	-5bps	-10bps
NIM	-10bps	(2.9)	(2.3)	(1.6)	(1.0)	(0.4)
	-5bps	(2.1)	(1.5)	(0.8)	(0.2)	0.5
	Current	(1.3)	(0.6)	0.0	0.6	1.3
	+5bps	(0.5)	0.2	0.8	1.5	2.1
	+10bps	0.4	1.0	1.6	2.3	2.9

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	11.9	14.6	17.6	26.8	1.3	1.1	0.7	2.6	2.5	2.9	19.1	19.1	21.4
Ujjivan	34.2	31.1	54.6	47.4	2.0	1.7	1.2	1.7	1.7	2.0	10.7	13.0	15.4
Equitas	34.0	38.8	40.0	59.9	1.8	1.2	1.1	1.2	1.7	1.9	7.5	12.0	15.2

Source: Company, Centrum Research estimates

Fig 1: Key concall takeaways and metrics

FY20E Guidance	Q2FY20	Q1FY20	Our Comments
AuM growth	20-25%	25-30%	Satin has revised its AuM growth guidance to 20-25% as focus is on operational improvement and credit quality. Though H2 is usually higher for Satin as compared to H1 and we see a 30% rise in H2 disbursements over H1 which might lead to a 21.3% AuM growth for FY20. We see an AuM CAGR of 23.3% over FY19-21E.
NIM	-	Stable	Due to customer profile and its maturity pattern of loan and borrowings, passing on the cost of funds change to customers may not be a challenge. Management expects NIM to be stable in the near term but we have conservatively factored a decline of 30bps from FY19 to FY20 due to a positive ALM mismatch.
Opex	Opex efficiency to improve	Opex efficiency to improve	Opex has been elevated in H1FY20 as focus has been on process improvements and credit quality which has led to tightened of credit checks and higher rejection rates. Also branch and employee expansion has been robust in H1FY20. Management commentary suggests that henceforth they do not envisage any chunky opex costs other than the normal course. Hence we expect the opex to AuM ratio to improve from 6.6% to 5.4% over FY19-21E.
Provisions costs		<100bps	Conservatively we are factoring in provisions of 150/140bps each for FY20 and FY21 due to the impact of floods in certain parts of India.
Consol. PAT	Rs.260crs	Rs.260crs	Consol. PAT of Rs.2.6bn is guided for FY20. We see a standalone PAT of Rs2.3bn 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)	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Interest earned	2,413	2,713	3,045	3,152	3,022	2,575	2,715	2,627
Interest expended	1,324	1,440	1,533	1,681	1,666	1,510	1,506	1,468
Net interest income	1,089	1,273	1,512	1,472	1,356	1,065	1,209	1,158
Other income	43	64	49	316	792	726	614	825
Total income	1,132	1,337	1,561	1,788	2,148	1,791	1,824	1,983
Operating expenses	747	714	823	914	909	1,065	994	1,080
Employees	513	474	597	617	703	731	730	761
Others	234	240	227	298	206	333	265	318
Operating profit	385	623	738	874	1,239	726	829	904
Provisions	(374)	(2)	358	184	99	(121)	180	140
Profit before tax	759	625	380	690	1,139	847	649	764
Tax	271	213	129	246	439	292	236	215
Profit after tax	488	411	250	444	700	555	414	549
Balance sheet								
AUM (Rs mn)	43,044	50,848	54,002	55,612	55,900	63,740	64,670	64,140
AUM growth (%)	28.7	40.6	43.2	39.5	29.9	25.4	19.8	15.3
Total CRAR (%)	26.6	23.7	26.4	25.2	30.1	28.5	30.5	30.1
Profitability ratios (reported %)								
Gross yield	23.7	23.7	23.6	25.7	27.4	22.1	20.7	21.4
Financial cost	12.8	12.3	11.7	12.3	12.0	10.1	9.4	9.1
NIM	10.9	11.4	11.9	13.4	15.4	12.0	11.4	12.3
Opex ratio	7.2	6.1	6.3	6.9	6.5	7.1	6.4	6.7
Loan loss ratio	-3.6	0.0	2.7	1.5	0.7	-0.8	1.1	0.9
ROA	3.8	2.8	1.5	2.6	4.2	3.3	2.5	3.3
Leverage	5.3	5.8	5.9	5.4	5.1	4.6	3.9	3.6
ROE	28.1	18.9	10.7	18.0	26.9	20.0	13.5	16.5
Cost to income	66.0	53.4	52.7	51.4	42.3	59.5	54.6	54.7
Asset quality ratios (%)								
GNPA	9.2	4.4	3.9	4.1	3.2	2.9	2.8	3.1
ECL	5.5	4.2	3.5	3.2	2.0	1.6	1.6	1.7

Source: Company, Centrum Research estimates

P&L (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Interest income	7,357	9,573	11,795	11,517	12,106
Interest expense	4,351	5,317	6,390	6,179	6,156
NII	3,005	4,256	5,405	5,339	5,950
Other income	410	194	1,935	2,883	3,692
Total income	3,415	4,450	7,340	8,222	9,642
Operating expenses	2,538	2,740	3,763	4,264	4,699
Employee	1,568	1,892	2,648	2,850	3,097
Others	970	848	1,115	1,414	1,603
PPOP	877	1,711	3,577	3,958	4,943
Provisions	505	445	521	701	749
PBT	372	1,266	3,056	3,257	4,193
Tax	127	445	1,107	945	1,057
PAT	245	821	1,949	2,313	3,137

Ratios	FY17	FY18	FY19	FY20E	FY21E
Growth (%)					
AUM	10.6	40.6	25.3	21.4	25.2
Borrowings	41.8	14.0	9.2	(11.8)	12.6
NII	32.5	41.6	27.0	(1.2)	11.4
Other income	(1.9)	(52.6)	895.9	49.0	28.1
Opex	58.3	7.9	37.4	13.3	10.2
PPoP	(19.0)	95.1	109.1	10.7	24.9
Provisions	142.7	(12.0)	17.1	34.6	6.9
PAT	(57.7)	235.3	137.3	18.6	35.6
Profitability (%)					
Yield on IEA	17.4	18.1	19.5	18.5	17.5
Cost of funds	13.3	13.0	14.0	13.8	13.8
Spread	4.1	5.1	5.4	4.7	3.7
NIM	7.1	8.1	8.9	8.6	8.6
Other Income/ Total Income	12.0	4.4	8.2	8.6	6.9
Other Income / Total Assets	1.0	0.4	0.9	1.1	1.0
Cost / Income	74.3	61.6	51.3	51.9	48.7
Employees	45.9	42.5	36.1	34.7	32.1
Others	28.4	19.1	15.2	17.2	16.6
Opex / AuM	7.4	6.3	6.6	6.0	5.4
Provisions	1.5	1.0	1.1	1.5	1.4
Tax Rate	34.1	35.1	36.2	29.0	25.2
RoA	0.5	1.4	2.6	2.5	2.9
RoE	6.3	12.2	19.1	19.1	21.4

DuPont (% avg assets)	FY17	FY18	FY19	FY20E	FY21E
Interest income	15.6	16.4	15.6	12.5	11.1
Interest expense	9.2	9.1	8.5	6.7	5.7
NII	6.4	7.3	7.1	5.8	5.5
Other income	0.9	0.3	2.6	3.1	3.4
Total income	7.2	7.6	9.7	8.9	8.9
Operating expenses	5.4	4.7	5.0	4.6	4.3
Employees	3.3	3.2	3.5	3.1	2.8
Others	2.1	1.5	1.5	1.5	1.5
PPOP	1.9	2.9	4.7	4.3	4.5
Provisions	1.1	0.8	0.7	0.8	0.7
PBT	0.8	2.2	4.0	3.5	3.9
Tax	0.3	0.8	1.5	1.0	1.0
PAT	0.5	1.4	2.6	2.5	2.9

Source: Company, Centrum Research estimates

Balance Sheet (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Financial assets	45,514	61,096	66,082	60,502	70,453
Cash	6,530	4,458	10,039	8,348	8,732
Bank balance	6,229	6,374	6,940	5,370	6,404
Loans	31,836	48,452	44,601	41,130	48,590
Investment	703	1,486	4,219	5,370	6,404
Other financial assets	216	326	284	284	323
Non-financial assets	1,773	1,530	992	805	961
Deferred tax assets	1,197	887	312	293	408
Fixed Assets	343	360	430	439	437
Other Non-fin. assets	233	283	250	73	116
Total Assets	47,287	62,626	67,073	61,307	71,413
Financial liabilities	42,633	53,436	55,230	48,400	54,474
Debt securities	5,881	9,193	9,759	8,608	9,691
Borrowings	32,233	38,624	37,200	32,815	36,944
Subordinated Debt	2,930	3,692	5,392	4,756	5,355
Other financial liabilities	1,589	1,927	2,879	2,220	2,484
Non-financial liabilities	145	270	329	251	293
Current tax liabilities	0	91	118	90	105
Provisions	92	102	135	103	120
Other Non-fin liabilities	53	77	76	58	68
Total equity	4,509	8,919	11,514	12,656	16,647
Share capital	371	473	485	485	535
Other equity	4,138	8,446	11,029	12,171	16,112
Total Liabilities	47,287	62,626	67,073	61,307	71,413
Balance Sheet ratios (%)					
Debt / Equity	9.1	5.8	4.5	3.6	3.1
Assets / Equity	10.5	7.0	5.8	4.8	4.3
Cash / Borrowings	0.3	0.2	0.3	0.3	0.3
Capital Adequacy (%)	2,971	3,385	362		
CRAR	24.1	21.2	28.5	28.2	27.2
Tier-1	16.6	14.6	19.9	19.7	19.0
Tier-2	7.6	6.6	8.6	8.5	8.2
Asset quality (%)					
GNPA (Rs mn)	218	2,152	1,779	2,491	2,959
NNPA (Rs mn)	80	742	1,061	1,396	1,549
GNPA	0.6	4.2	2.8	3.2	3.1
NNPA	0.2	1.5	1.7	1.8	1.6
PCR	63.5	65.5	40.4	43.9	47.6
NNPA / Equity	1.8	8.3	9.2	11.0	9.3
Per share (Rs)					
EPS	6.6	17.4	40.2	47.7	58.7
BVPS	121.4	188.7	237.3	260.8	311.3
ABVPS	119.2	173.0	215.4	232.0	282.3
Valuation (x)					
P/E	67.5	20.4	7.7	6.2	3.9
P/BV	3.7	1.9	1.3	1.1	0.7
P/ABV	3.7	2.1	1.4	1.3	0.8

Source: Company, Centrum Research estimates

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Source: Bloomberg

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