

# Satin Creditcare Network - BUY

## Tepid show

### Process re-engineering, floods and sustained strategic investments keeping a check on profitability

Satin Creditcare delivered a tepid operating performance in Q2 FY20 with AUM remaining flat sequentially, along with sustained business investments in areas of branch addition and structural process changes drove an increase in opex/avg. AUM ratio. Within AUM, the on-book MFI portfolio declined 5% qoq and 23% yoy as the growth continues to be driven by assignments (being preferred by lender banks). IndusInd Bank BC portfolio was also lower qoq being impacted by process changes and intense floods in the earmarked areas. BC business under subsidiary TFSL grew 9% qoq as the recent tie-up with a bank started scaling-up. The housing and MSME financing subsidiaries, SHFL and SFL, reported sustained strong AUM accretion. In Q2 FY20, the DA income was substantially higher at Rs570mn.

The key process changes that have been rolled out across branches have been a) migration of back-end activities to centralized shared services, b) implementation of cashless collection facility (currently 12% of repayments; management confident of reaching 50% by fiscal end), c) achieving 100% branch roll-out of Psychometric Test for loan approvals, d) implementation of e-KYC and real-time credit bureau check and e) geo tagging of employees. This process re-engineering which aims at better underwriting, tighter control over operations, enhanced cost efficiencies and elevated customer convenience is having a transient impact on disbursement volumes, with higher initial loan rejections. Intense floods in the states of Bihar, Assam, Orissa and MP, which are key operating states for Satin, also impacted disbursement growth.

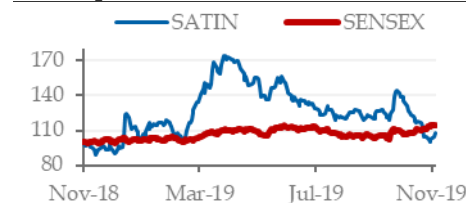
**CMP (Rs) 236**      **12-mts Target (Rs) 320**      **Upside 36%**

Stock data (As on Nov 06, 2019)

Sector: Financials

Sensex:	40,470
52 Week h/l (Rs)	398/183
Market cap (Rs bn)	12
Enterprise value (Rs bn)	-
6m Avg t/o (Rs mn):	12
FV (Rs):	10
Div yield (%):	-
Bloomberg code:	SATIN IN
BSE code:	539404
NSE code:	SATIN

### Stock performance



### Shareholding pattern (As of Sept '19 end)

Promoter	29.7%
FII+DII	39.7%
Others	30.6%

### Exhibit 1: Result table

Y/e 31 Mar (Rs mn)	Q2 FY20	Q1 FY20	% qoq	Q2 FY19	% yoy
Operating Income	3,660	3,526	3.8	3,648	0.3
Interest Expenses	(1,498)	(1,526)	(1.8)	(1,685)	(11.1)
<b>Net Interest Income</b>	<b>2,163</b>	<b>2,001</b>	<b>8.1</b>	<b>1,963</b>	<b>10.2</b>
Other income	4	5	(21.7)	4	(6.9)
<b>Total Income</b>	<b>2,167</b>	<b>2,006</b>	<b>8.0</b>	<b>1,967</b>	<b>10.2</b>
Operating expenses	(1,315)	(1,215)	8.3	(1,062)	23.9
Provisions	(97)	(148)	(34.0)	(185)	(47.2)
PBT	754	643	17.2	720	4.6
Tax	(210)	(235)	(10.3)	(259)	(18.8)
<b>PAT</b>	<b>543</b>	<b>409</b>	<b>33.0</b>	<b>461</b>	<b>17.8</b>
<b>OCI</b>	<b>120</b>	<b>339</b>	<b>(64.7)</b>	<b>(0)</b>	
<b>Comprehensive Income</b>	<b>663</b>	<b>748</b>	<b>(11.3)</b>	<b>461</b>	<b>43.8</b>

Source: Company, YES Sec - Research

With the company consistently covering new districts/areas, the portfolio concentration continues to come down both state wise and district wise. With Top 7 states' contribution at 73% and 96% of districts contributing <1% to the portfolio, Satin is one of the most regionally diversified MFI. On the back of persistent branch addition and revival in employee addition, the opex. growth remained elevated around 23-25% yoy and the opex. /avg. AUM ratio deteriorated by 50 bps. On account of floods, there was a slight increase in the GNPL ratio in Q2 FY20; however, the collection efficiency and credit cost remained stable.

## Management expects FY21 to be a stronger year; we lower estimates, but retain BUY on low valuations

Though Satin has retained FY20 PAT guidance at Rs2.6bn, achieving it looks improbable considering that organization could take a couple of quarters to attune to the new processes and systems. Thus, even as disbursement throughput would improve in H2, the overall AUM growth may not accelerate meaningfully from the current levels by the fiscal-end. Operating leverage will remain under pressure and the requirement of carrying higher liquidity on the balance sheet would weigh on earnings too. FY21 should be a much a better year for Satin and could mark its significant progress towards industry profitability. We revise our earnings estimates downward for FY20/21 and calibrate our RoA expectations accordingly. With the stock having corrected significantly in recent months, its valuation remains undemanding at 0.7x P/ABV and 4x P/E on FY21 basis. The prime re-rating trigger would be a revival in AUM growth.

## Exhibit 2: Key Ratios

Particulars	Q2 FY20	Q1 FY20	chg qoq	Q2 FY19	chg yoy
Gross Yield*	21.4	20.7	0.7	25.7	(4.3)
Financial Cost Ratio*	9.1	9.4	(0.3)	12.3	(3.2)
NIM*	12.3	11.4	1.0	13.4	(1.1)
C/I	60.7	60.6	0.1	54.0	6.7
Loan Loss Ratio*	0.9	0.9	(0.1)	1.5	(0.7)
Gross NPA / PAR 90	3.1	2.8	0.3	4.1	(1.0)
RoA*	3.3	2.5	0.8	2.6	0.6
RoE*	16.5	13.5	3.0	18.0	(1.5)
CAR	30.1	30.5	(0.4)	25.2	4.9

Source: Company, YES Sec - Research

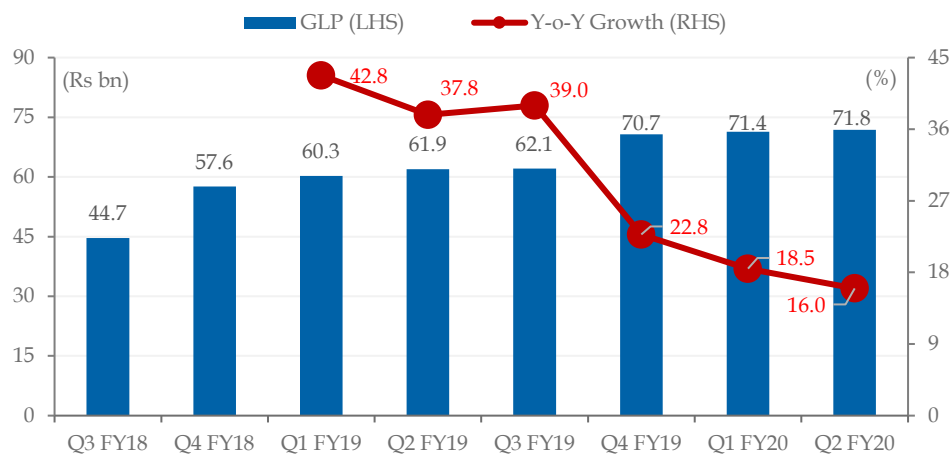
\*On a Standalone Basis

## Exhibit 3: Business Data

Particulars	Q2 FY20	Q1 FY20	% qoq	Q2 FY19	% yoy
<b>AUM - Rs mn</b>	71,820	71,390	0.6	61,910	16.0
MFI (SCNL)	61,320	61,800	(0.8)	54,560	12.4
MSME (SCNL)	2,820	2,870	(1.7)	1,050	168.6
TSL	5,910	5,420	9.0	6,040	(2.2)
SHFL	1,160	1,010	14.9	270	329.6
<b>ATS - Rs</b>					
MFI (SCNL)	30,000	28,000	7.1	27,000	11.1
MSME (SCNL)	3,560,000	4,950,000	(28.1)	1,100,000	223.6
TSL	31,000	28,600	8.4	26,700	16.1
SHFL	1,341,000	1,386,000	(3.2)	1,493,000	(10.2)
<b>Branches - No</b>					
SCNL	1,073	1,024	4.8	885	21.2
TSL	203	186	9.1	179	13.4
SHFL	9	6	50.0	2	350.0
<b>Employees - No</b>					
SCNL	9,832	9,555	2.9	9,579	2.6
TSL	1,472	1,342	9.7	1,352	8.9
SHFL	130	106	22.6	41	217.1

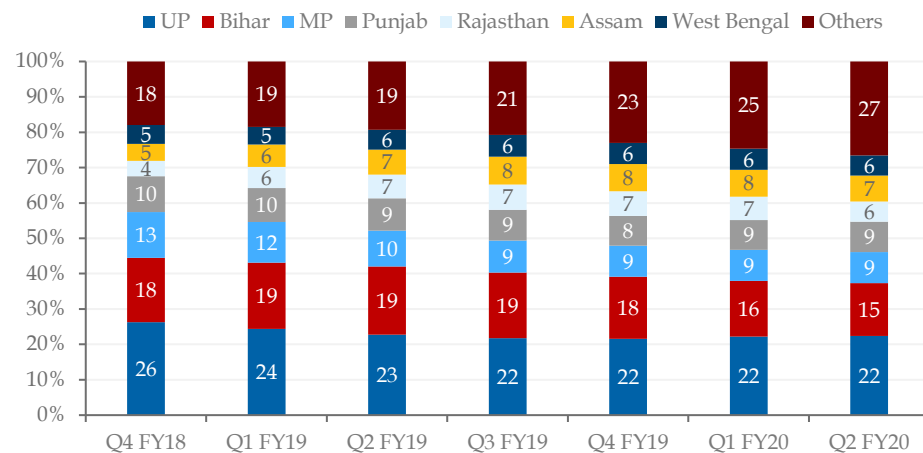
Source: Company, YES Sec - Research

### Exhibit 4: Consol. AUM growth continues to decelerate



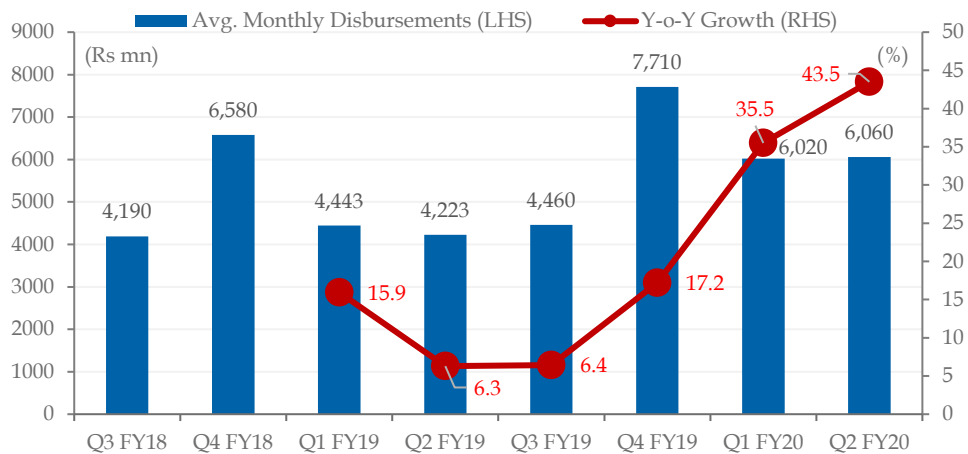
Source: Company, YES Sec - Research

### Exhibit 6: Geographically diversified portfolio (Consol.)



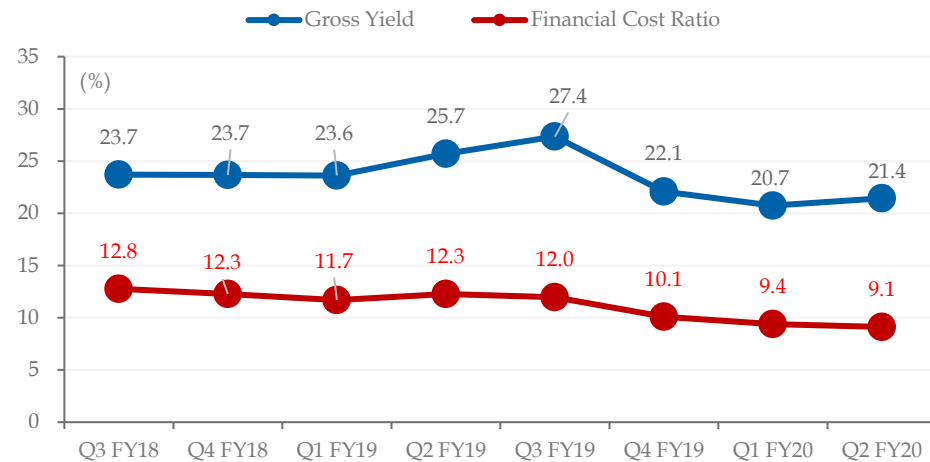
Source: Company, YES Sec - Research

### Exhibit 5: Standalone Disbursements pick up pace



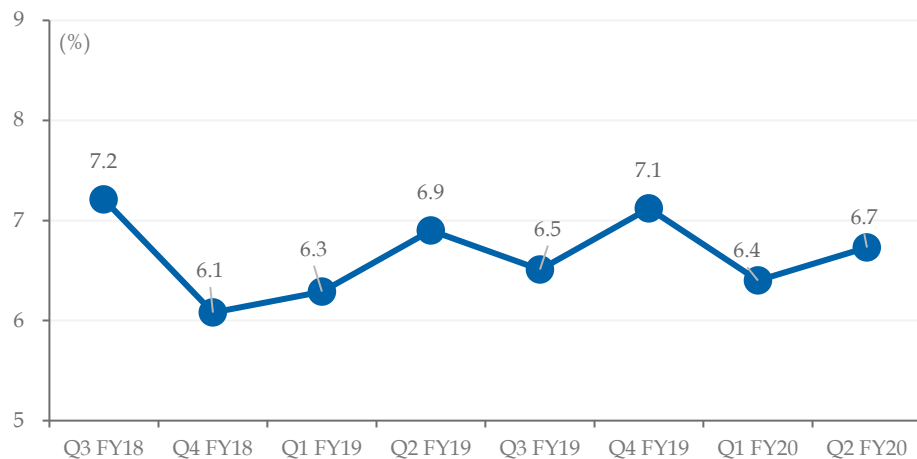
Source: Company, YES Sec - Research

### Exhibit 7: Standalone spread improves sequentially



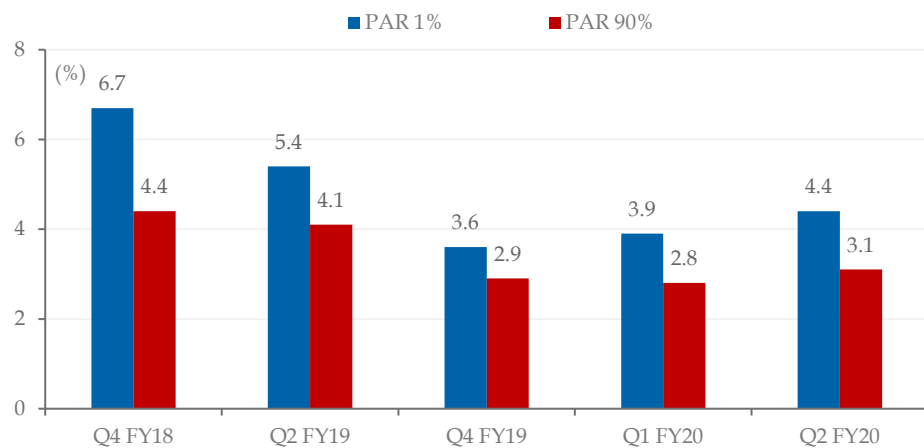
Source: Company, YES Sec - Research

**Exhibit 8: Standalone Opex/Avg. AUM ratio stable**



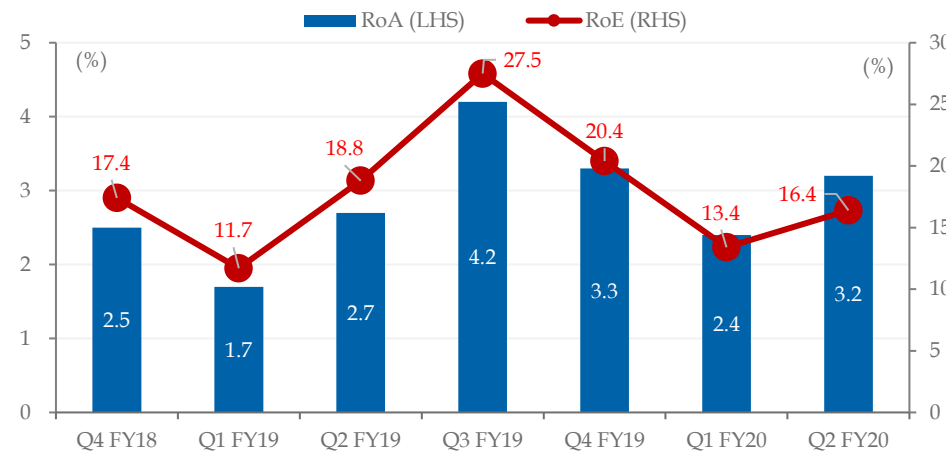
Source: Company, YES Sec – Research

**Exhibit 9: PAR trends worsen marginally**



Source: Company, YES Sec – Research

**Exhibit 10: Profit metrics stable**



Source: Company, YES Sec – Research

**Exhibit 11: Valuation summary**

Y/e 31 Mar (Rs mn)	FY18	FY19	FY20E	FY21E
Total operating income	4,972	8,055	8,881	10,717
yoy growth (%)	-	62.0	10.2	20.7
Operating profit (pre-provisions)	1,603	3,682	3,621	4,668
Net profit	748	2,015	2,097	2,835
yoy growth (%)	-	169.4	4.1	35.2
EPS (Rs)	15.8	41.5	40.6	54.9
Adj.BVPS (Rs)	183.5	217.9	262.4	318.3
P/E (x)	14.9	5.7	5.8	4.3
P/Adj.BV (x)	1.3	1.1	0.9	0.7
ROE (%)	11.2	19.8	16.1	17.8
ROA (%)	1.4	3.1	2.8	3.0

Source: Company, YES Sec – Research

## 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.

## DISCLOSURE OF INTEREST

Name of the Research Analyst : Rajiv Mehta; Sachit Damani, CFA

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 or YSL'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 any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	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.

### 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@ysil.in | **Website:** www.yesinvest.in

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@ysil.in, Contact No-+91-22-33479208

## 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:** Potential return **>15%** over 12 months

**ADD:** Potential return **+5% to +15%** over 12 months

**REDUCE:** Potential return **-10% to +5%** over 12 months

**SELL:** Potential return **<-10%** over 12 months

**NOT RATED**

### About YES Securities (India) Limited

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a SEBI registered stock broker holding membership of NSE, BSE and MCX. 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.