

CENTRUM

Satin Creditcare Network

Weak AuM growth, provisions a key monitorable

Satin results were a miss on AuM growth (+14% YoY vs est. of 22%) though NII beat was led by NIM expansion. Disbursements/repayments were lower/higher to est. by 11%/10%. Opex downtick and assignment income protected PPOP which was in line at Rs1.07bn. Provisions almost tripled sequentially to Rs529mn driven by stress in upper Assam and demonetisation related write-offs. CE in Assam is improving (at 75-80% vs 50% in Nov'19). We see AuM growth to pick-up in FY21/22E to 25%. RoA/RoE is set to come in at 2.6%/19.4% in FY22E. Valuation at 0.6x is attractive. Roll forward to FY22E ABV, retain Buy but revise multiple/TP to 1.0x/Rs300 (1.5x/Rs410 earlier).

Q3FY20 results – Weak on AuM, PPOP in-line, provisions spike

NII at Rs1.3bn saw a QoQ uptick (beating est. by 13%) driven by reported QoQ NIM expansion of 54bps QoQ to 12.9%. There was a QoQ yield/cost improvement of 26b/27bps. AuM growth was a miss at +14.3% YoY (est. 21% YoY) to Rs63.9bn. Disbursements were lower to est. by 11% and repayments were higher by 10%. Assignment income at Rs556mn, again contributed a chunk to other income. Opex was slightly lower due to other expenses and PPOP was in line at Rs1.1bn. GNPA ratio was stable QoQ at 3.1% while ECL came in higher at 2.2% vs 1.7% QoQ as provisions spiked to Rs529mn (est. Rs200mn). Tax expense was lower (tax rate at 13%) due to DTA. Net profit was lower at Rs477mn (est. Rs627mn).

Quarterly lower net accretion to AuM might lead to muted FY20E AuM growth.

Disbursements at Rs19.0bn were lower as due to process improvements, rejection rates rose YoY from 15% to 18%. Also, higher repayments were faster at 30% of opening AuM (vs avg. 25% for the last 8 quarters) as scheduled repayments were concentrated in the Q2&Q3FY20. Usually H2 is stronger for Satin (H2 is ~40% higher than H1) and management interaction suggests that the disbursement pace has picked-up. Factoring in higher net accretion in Q4FY20 AuM, we lower our FY20 AuM growth to 12% YoY (vs 21% earlier). For FY21/22E each we see growth resuming back to 25% AuM growth. Owing to higher liquidity on the balance sheet and lower growth, NIM for FY20E might dip by 60bps YoY to 8.3% (vs est. 8.6% earlier).

Assam portfolio stress and demonetisation related write-offs led to provision spike

Provision spiked sequentially and of the Rs529mn, provisions for the upper Assam portfolio were Rs290mn and write-offs were Rs240mn. Assam stage-3 is Rs30mn which might escalate in Q4FY20. However, upper Assam CE which was 50% in Nov'19 during CAA/NRC protest, has improved to 75-80%. CE for rest of Assam is 99%. Assam exposure is 6.1% though on-book portfolio is Rs2.5bn. The company does not face any challenges in West Bengal (5.6% of GLP). We see provisions to remain elevated in Q4FY20E and raise our provision estimates to 3.1% for FY20E (vs 1.5% earlier).

Valuation and risks

For FY20 we have trimmed our NII/AUM and raised our provision est. while for FY21 we increase provisions. FY20E/21E earnings cut is -23.1%/-23.6%. Near term MFI potential is intact but credit costs might be higher. Revise multiple to 1.0x (vs 1.5x earlier) due to the earnings cut, roll forward to FY22 ABV to arrive at a TP of Rs300 (Rs410 earlier). Maintain BUY on attractive valuations. Risks: higher opex and spike in NPA.

Financial and valuation summary

YE Mar (Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	FY20E	FY21E	FY22E
NII	1312	1356	(3.2)	1158	13.3	5,010	5,722	7,339
PPoP	1079	1239	(12.9)	904	19.4	3,858	4,342	5,483
Provisions	529	99	431.7	140	277.7	1,386	1,137	1,252
PAT	477	700	(31.9)	549	(13.1)	1,779	2,397	3,165
AUM growth (%)	14.3	29.9	(15.6)	15.3	(1.0)	12.0	24.9	24.7
NIM (%)	12.9	15.4	(2.5)	12.3	0.5	8.3	8.6	8.7
C / I (%)	46.9	42.3	4.6	54.7	(7.8)	51.3	51.0	50.4
GNPA (%)	3.1	3.2	0.1	3.1	0.0	3.6	3.3	3.1
RoA (%)	2.9	4.2	1.3	3.3	0.4	2.0	2.4	2.6
RoE (%)	13.8	26.9	(13.1)	16.5	(2.7)	15.1	17.4	19.4
P / ABV	-	-	-	-	-	0.8	0.7	0.6

Source: Company, Centrum Research estimates

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

Result Update
India I Diversified Financials
20 February 2020

Buy

Target Price: Rs300
Price: Rs181
Forecast return: 66%

Institutional Research

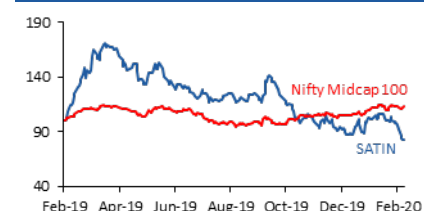
Market Data

Bloomberg:	SATIN IN
52 week H/L:	Rs398/182
Market cap:	Rs10bn
Shares outstanding:	52mn
Free float:	53.5%
Avg. daily vol. 3mth:	143,564
Source: Bloomberg	

Changes in the report

Rating:	Unchanged
Target Price:	To Rs300 from Rs410
EPS:	(23)% FY20E & (24)% FY21E
Source: Centrum Research	

SATIN relative to Nifty Midcap 100



Source: Bloomberg

Shareholding pattern

	Dec-19	Sep-19	Jun-19	Mar-19
Promoter	30.2	29.7	29.7	27.9
FII	7.8	13.5	13.3	14.8
DII	25.3	23.2	23.9	21.7
Public/oth	36.8	33.6	33.1	35.6

Source: BSE



Gaurav Jani

Analyst, Banks, Diversified Financials
+91 22 4215 9310
gaurav.jani@centrum.co.in



Rahul Nandwani

Associate, Banks, Diversified Financials
+91 22 4215 9364
rahul.nandwani@centrum.co.in

BFSI

Thesis Snapshot

Estimate revisions

YE Mar (Rs mn)	FY20E New	FY20E Old	% chg	FY21E New	FY21E Old	% chg
NII	5,010	5,339	(6.2)	5,722	5,950	(3.8)
PPoP	3,858	3,958	(2.5)	4,342	4,943	(12.2)
PAT	1,779	2,313	(23.1)	2,397	3,137	(23.6)
AUM growth (%)	12.0	21.4	(9.4)	24.9	25.2	(0.3)
GNPA	3.6	3.2	36bps	3.3	3.1	22bps

Source: Centrum Research estimates

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q3FY20	Actual Q3FY20	Variance (%)
NII	1,312	1,166	12.5
PPoP	1079	1071	0.8
PAT	477	627	(24.0)
AuM growth	14.3	21.9	(7.6)

Source: Bloomberg, Centrum Research estimates

Satin versus Nifty Midcap 100

	1m	6m	1 year
SATIN IN	(21.8)	(33.0)	(19.0)
Nifty Midcap 100	0.9	15.3	11.2

Source: Bloomberg, NSE

Key assumptions

YE Mar (Rs mn)	FY20E	FY21E	FY22E
AUM growth (%)	12.0	24.9	24.7
NIM (%)	8.3	8.6	8.7
Other inc / Assets (%)	4.6	4.7	4.4
Cost / Assets (%)	6.0	5.6	5.6
Provision costs	3.1	2.1	1.8

Source: Centrum Research estimates

Valuations

For FY20 we have trimmed our NII/AUM and raised our provision est. while for FY21 we increase provisions. FY20E/21E earnings cut is -23.1%/-23.6%. Near term MFI potential is intact but credit costs might be higher. Revise multiple to 1.0x (vs 1.5x earlier) due to the earnings cut, roll forward to FY22 ABV to arrive at a TP of Rs300 (Rs410 earlier). Maintain BUY on attractive valuations. Risks: higher opex and spike in NPA.

Valuations

FY22E ABVPS (Rs)	297.9
Historical P/ABV (x)	2.0
Premium assigned (%)	(50.0)
Ascribed P/ABV (x)	1.0
Fair value / share (Rs)	300

P/BV mean and standard deviation



Sensitivity analysis

		Provision cost				
		+10bps	+5bps	Current	-5bps	-10bps
NIM	-10bps	(3.6)	(2.8)	(2.0)	(1.2)	(0.4)
	-5bps	(2.6)	(1.8)	(1.0)	(0.2)	0.6
	Current	(1.6)	(0.8)	0.0	0.8	1.6
	+5bps	(0.6)	0.2	1.0	1.8	2.6
	+10bps	0.4	1.2	2.0	2.8	3.6

Source: Bloomberg, Centrum Research estimates

Peer comparison

Company	Mkt Cap Rs bn	CAGR FY19-FY22E (%)			P/BVPS				RoA (%)				RoE (%)			
		Total inc	PPOP	PAT	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E
Satin CreditCare	9.4	14.6	15.3	17.5	1.3	0.7	0.6	0.6	2.6	2.0	2.4	2.6	19.1	15.1	17.4	19.4
Ujjivan SFB	92.2	33.18	57.9	57.5	5.0	3.1	2.6	2.2	1.7	2.1	2.5	2.7	12.9	14.6	16.3	20.1
Equitas	39.0	26.4	70.6	58.2	1.9	1.4	1.2	1.0	1.2	1.5	1.8	1.9	7.5	10.9	13.6	16.3
Credit Access	140.6	17.4	18.8	20.9	4.5	4.3	3.5	2.8	4.1	3.4	2.8	2.9	17.0	17.3	18.8	20.2
Spandana	70.4	19.0	18.3	21.2	2.6	2.5	2.1	1.7	2.2	2.8	2.3	2.4	21.5	17.9	23.5	24.3

Source: Company, Centrum Research estimates

Fig 1: Key concall takeaways and metrics

FY20E Guidance	Q3FY20	Q2FY20	Our Comments
AuM growth	-	20-25%	Satin had revised its AuM growth guidance to 20-25% in Q2FY20. Given the muted growth seen in Q3FY20 we do not foresee it achieving this target. We see AUM growth of 12.0% for FY20. Over FY19-22E, see an AuM CAGR of 20% over FY19-22E.
NIM	-	-	9MFY20 has seen muted on AuM growth for Satin owing to process rationalisation (leading to higher rejection) and scheduled repayments in the 3-9M maturity bucket. Slower credit off-take and faster repayments have led to higher liquidity on the balance sheet leading to an NIM drag. Hence we revise our FY20 NIM estimate lower to 8.3% (vs 8.6% earlier). As we expect growth to pick-up in FY21/22E we might see NIM improving to 8.6%/8.7%.
Opex	-	Opex efficiency to improve	Opex improved in Q3FY20 with cost to income improving to 47.5% QoQ from 54.4%. This was led by higher NII and lower other expenses. Given the branch and employee expansion in 9MFY20 and given that no chunky opex costs are expected we see opex to AuM ratio to improve from 6.0% to 5.6% over FY19-22E.
Provisions costs	-	-	Due to the negative surprise in the Assam portfolio, FY20 credit costs might see a spike and we raise our est. to 310bps (vs 150bps earlier). We see provisions to taper down to 210/180bps in FY21/22E.
Consol. PAT	-	Rs.2.6bn	Consol. PAT of Rs.2.6bn was guided for FY20. We see a standalone PAT of Rs1.8bn for FY20 as 9MFY20 earnings were marred by a spike in provisions. We see standalone PAT/RoA/RoE at Rs3.2bn/2.6%/19.4% in FY22E.

Source: Company, Centrum Research estimates

Fig 2: Quarterly Financials

Profit & Loss (Rs mn)	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Interest earned	2,713	3,045	3,152	3,022	2,575	2,715	2,627	2,728
Interest expended	1,440	1,533	1,681	1,666	1,510	1,506	1,468	1,416
Net interest income	1,273	1,512	1,472	1,356	1,065	1,209	1,158	1,312
Other income	64	49	316	792	726	614	825	745
Total income	1,337	1,561	1,788	2,148	1,791	1,824	1,983	2,057
Operating expenses	714	823	914	909	1,065	994	1,080	978
Employees	474	597	617	703	731	730	761	721
Others	240	227	298	206	333	265	318	257
Operating profit	623	738	874	1,239	726	829	904	1,079
Provisions	(2)	358	184	99	(121)	180	140	529
Profit before tax	625	380	690	1,139	847	649	764	550
Tax	213	129	246	439	292	236	215	74
Profit after tax	411	250	444	700	555	414	549	477
Balance sheet								
AUM (Rs mn)	50,848	54,002	55,612	55,900	63,740	64,670	64,140	63,900
AUM growth (%)	40.6	43.2	39.5	29.9	25.4	19.8	15.3	14.3
Total CRAR (%)	23.7	26.4	25.2	30.1	28.5	30.5	30.1	32.2
Profitability ratios (reported %)								
Gross yield	23.7	23.6	25.7	27.4	22.1	20.7	21.4	21.7
Financial cost	12.3	11.7	12.3	12.0	10.1	9.4	9.1	8.9
NIM	11.4	11.9	13.4	15.4	12.0	11.4	12.3	12.9
Opex ratio	6.1	6.3	6.9	6.5	7.1	6.4	6.7	6.0
Loan loss ratio	0.0	2.7	1.5	0.7	-0.8	1.1	0.9	3.4
ROA	2.8	1.5	2.6	4.2	3.3	2.5	3.3	2.9
Leverage	5.8	5.9	5.4	5.1	4.6	3.9	3.6	3.4
ROE	18.9	10.7	18.0	26.9	20.0	13.5	16.5	13.8
Cost to income	53.4	52.7	51.4	42.3	59.5	54.6	54.7	46.9
Asset quality ratios (%)								
GNPA	4.4	3.9	4.1	3.2	2.9	2.8	3.1	3.1
ECL	4.2	3.5	3.2	2.0	1.6	1.6	1.7	2.2

Source: Company, Centrum Research estimates

P&L (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Interest income	9,573	11,795	10,804	11,720	15,013
Interest expense	5,317	6,390	5,794	5,998	7,674
NII	4,256	5,405	5,010	5,722	7,339
Other income	194	1,935	2,908	3,139	3,721
Total income	4,450	7,340	7,918	8,861	11,060
Operating expenses	2,740	3,763	4,061	4,519	5,577
Employee	1,892	2,648	2,942	3,197	3,832
Others	848	1,115	1,118	1,322	1,745
PPOP	1,711	3,577	3,858	4,342	5,483
Provisions	445	521	1,386	1,137	1,252
PBT	1,266	3,056	2,471	3,205	4,231
Tax	445	1,107	692	808	1,066
PAT	821	1,949	1,779	2,397	3,165

Ratios	FY18	FY19	FY20E	FY21E	FY22E
Growth (%)					
AUM	40.6	25.3	12.0	24.9	24.7
Borrowings	14.0	9.2	(14.3)	24.4	32.6
NII	41.6	27.0	(7.3)	14.2	28.3
Other income	(52.6)	895.9	50.3	7.9	18.5
Opex	7.9	37.4	7.9	11.3	23.4
PPoP	95.1	109.1	7.9	12.6	26.3
Provisions	(12.0)	17.1	166.2	(18.0)	10.1
PAT	235.3	137.3	(8.7)	34.7	32.0

Profitability ratios (%)					
Yield on IEA	18.1	19.5	17.9	17.5	17.9
Cost of funds	13.0	14.0	13.1	13.1	13.0
Spread	5.1	5.4	4.8	4.4	4.9
NIM	8.1	8.9	8.3	8.6	8.7
Other Income/ Total Income	4.4	26.4	36.7	35.4	33.6
Other Income / Total Assets	0.4	3.0	4.6	4.7	4.4
Cost / Income	61.6	51.3	51.3	51.0	50.4
Employees	42.5	36.1	37.2	36.1	34.7
Others	19.1	15.2	14.1	14.9	15.8
Opex / AuM	6.3	6.6	6.0	5.6	5.6
Provisions	1.0	1.1	3.1	2.1	1.8
Tax Rate	35.1	36.2	28.0	25.2	25.2
RoA	1.4	2.6	2.0	2.4	2.6
RoE	12.2	19.1	15.1	17.4	19.4

DuPont (% avg assets)	FY18	FY19	FY20E	FY21E	FY22E
Interest income	16.4	15.6	12.3	11.8	12.3
Interest expense	9.1	8.5	6.6	6.0	6.3
NII	7.3	7.1	5.7	5.8	6.0
Other income	0.3	2.6	3.3	3.2	3.0
Total income	7.6	9.7	9.0	8.9	9.1
Operating expenses	4.7	5.0	4.6	4.6	4.6
Employees	3.2	3.5	3.3	3.2	3.1
Others	1.5	1.5	1.3	1.3	1.4
PPOP	2.9	4.7	4.4	4.4	4.5
Provisions	0.8	0.7	1.6	1.1	1.0
PBT	2.2	4.0	2.8	3.2	3.5
Tax	0.8	1.5	0.8	0.8	0.9
PAT	1.4	2.6	2.0	2.4	2.6

Source: Company, Centrum Research estimates

Balance Sheet (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Financial assets	61,096	66,082	58,600	73,223	93,671
Cash	4,458	10,039	6,019	6,571	6,899
Bank balance	6,374	6,940	5,556	5,973	7,665
Loans	48,452	44,601	41,195	54,377	71,044
Investment	1,486	4,219	5,556	5,973	7,665
Others	326	284	274	329	398
Non-financial assets	1,530	992	764	986	1,265
Deferred tax assets	887	312	278	418	537
Fixed Assets	360	430	417	448	575
Others	283	250	69	119	153
Total Assets	62,626	67,073	59,364	74,209	94,936
Financial liabilities	53,436	55,230	46,997	58,424	77,421
Debt securities	9,193	9,759	8,358	10,396	13,783
Borrowings	38,624	37,200	31,862	39,628	52,540
Subordinated Debt	3,692	5,392	4,618	5,744	7,615
Others	1,927	2,879	2,159	2,656	3,482
Non-financial liabilities	270	329	243	304	389
Current tax liabilities	91	118	87	109	139
Provisions	102	135	100	125	160
Others	77	76	56	70	90
Total equity	8,919	11,514	12,123	15,481	17,126
Share capital	473	485	485	535	535
Other equity	8,446	11,029	11,638	14,946	16,592
Total Liabilities	62,626	67,073	59,364	74,209	94,936
Balance Sheet ratios (%)					
Debt / Equity	5.8	4.5	3.7	3.6	4.3
Assets / Equity	7.0	5.8	4.9	4.8	5.5
Cash / Borrowings	0.2	0.3	0.3	0.2	0.2
Capital (%)	3,385	362			
CRAR	21.2	28.5	31.2	28.6	25.6
Tier-1	14.6	19.9	23.1	21.1	18.9
Tier-2	6.6	8.6	8.6	7.4	6.7
Asset quality (%)					
GNPA (Rs mn)	2,152	1,779	2,539	2,956	3,490
NNPA (Rs mn)	742	1,061	889	994	1,198
GNPA	4.2	2.8	3.6	3.3	3.1
NNPA	1.5	1.7	1.2	1.1	1.1
PCR	65.5	40.4	65.0	66.4	65.7
NNPA/ Equity	8.3	9.2	7.3	6.4	7.0
Per share (Rs)					
EPS	17.4	40.2	36.7	44.8	59.2
BVPS	188.7	237.3	249.8	289.5	320.3
ABVPS	173.0	215.4	231.5	270.9	297.9
Valuation (x)					
P/E	20.4	7.7	5.0	4.1	3.1
P/BV	1.9	1.3	0.7	0.6	0.6
P/ABV	2.1	1.4	0.8	0.7	0.6

Source: Company, Centrum Research estimates

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Source: Bloomberg

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PORTFOLIO MANAGER

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Website: www.centrum.co.in**Investor Grievance Email ID:** investor.grievances@centrum.co.in**Compliance Officer Details:**

Ashok D. Kadambi

(022) 4215 9937; Email ID: compliance@centrum.co.in

Centrum Broking Ltd. (CIN :U67120MH1994PLC078125)**Registered Office Address**Bombay Mutual Building ,
2nd Floor, Dr. D. N. Road,
Fort, Mumbai - 400 001**Corporate Office & Correspondence Address**Centrum House
6th Floor, CST Road, Near Vidya Nagari Marg, Kalina, Santacruz (E),
Mumbai 400 098.
Tel: (022) 4215 9000 Fax: +91 22 4215 9344

Centrum Broking Institutional Equities Team Details			
Nischal Maheshwari	CEO	nischal.maheshwari@centrum.co.in	+91-22-4215 9841
Research Analyst	Sector	E-mail	Phone number
Sneha Prashant	Auto & Auto Ancillary	sneha.prashant@centrum.co.in	+91-22-4215 9263
Gaurav Jani	BFSI	gaurav.jani@centrum.co.in	+91-22-4215 9110
Milind S Raginwar	Cement & Metals	milind.raginwar@centrum.co.in	+91-22-4215 9201
Shirish Pardeshi	FMCG	shirish.pardeshi@centrum.co.in	+91-22-4215 9634
Ashish Shah	Infra & Aviation	shah.ashish@centrum.co.in	+91-22-4215 9021
Madhu Babu	IT	madhu.babu@centrum.co.in	+91-22-4215 9855
Probal Sen	Oil & Gas	Probal.sen@centrum.co.in	+91-22-4215 9001
Cyndrella Carvalho	Pharma	cyndrella.carvalho@centrum.co.in	+91-22-4215 9643
Sparsh Chhabra	Economist	sparsh.chhabra@centrum.co.in	+91-22-4215 9035
Joaquim Fernandes	Quant	Joaquim.Fernandes@centrum.co.in	+91-22-4215 9363
Equity Sales	Designation	Email	Phone number
Rajesh Makharia	Director	rajesh.makharia@centrum.co.in	+91-22-4215 9854
Paresh Shah	MD	paresh.shah@centrum.co.in	+91-22-4215 9617
Anil Chaurasia	Sr. VP	anil.chaurasia@centrum.co.in	+91-22-4215 9631
Himani Sanghavi	AVP	himani.sanghavi@centrum.co.in	+91-22-4215 9082
Saahil Harwani	Associate	saahil.harwani@centrum.co.in	+91-22-4215 9623