

Satin Creditcare

PPoP beat led by other income; asset quality key

Satin PAT was a miss led by higher tax rate but results were better on a PPOP level led by higher other income. NII and NIM were in-line though AuM growth was slightly lower at 5.1% YoY. Other income was ahead of est. as assignment income was higher at Rs439mn. The company is prioritising collections over disbursements as they have reached 57%/35% of year ago levels respectively. CE (including past dues) improved to 94% in Sep'20 (85% in July'20). Customers corresponding to 10% of AuM have not paid a single EMI though ECL cover is 3.9% of AUM vis-à-vis GNPA of 2.9%. We see a rebound in FY22E with RoA/RoE scaling up to 2.1%/12.6%. Maintain multiple at 0.5x as valuation at 0.3x FY22 ABV is undemanding. Retain BUY and revise TP to Rs110.

Q2FY21 results – NII in line; other income offset by higher taxes

NII was in-line at Rs1.1bn and NIM calc. at 6.4% was also as expected. AUM growth at 5.1% YoY missed estimates of 6.7% led by higher repayments. Disbursements were Rs6.3bn (est. Rs6bn). Other income was better at Rs524mn (est. Rs450mn) due to higher assignment income. Opex was slightly higher at Rs958mn (est. Rs934mn) and opex to assets for H1FY21 was 5.5%. PPOP was a beat at Rs678mn (est. Rs645mn) driven by other income. Provisions were also in-line at Rs452mn (est. Rs450mn). Tax rate for the quarter was higher at 43.5% which included a previous period MAT expense of Rs40mn. GNPA at 2.9% was in-line, up 50bps QoQ. PAT was Rs128mn (est. Rs146mn).

Business to improve in H2FY21E; CE trend encouraging

Disbursements reached 35% of year ago levels while repayments at Rs10.7bn reached 57% of Q2FY20 levels. Management interaction suggests that priority has been on collections compared to lending and disbursements could reach 90% of pre-COVID only by Q4FY21E. Till Aug'20, Satin only disbursed to existing customers and from Sept'20 onwards, it started adding new customers. We lower our loan growth for FY21E to 3.4% (earlier 12.0%) earlier in FY21/22E as collections may outpace disbursements. Collection efficiency (CE) including past dues collected, enhanced to 94% compared to 86%/85% in Aug'20/Jul'20. As of Sept-20, 100% of disbursements were made through cashless mode while cashless collections stood at 11%.

Moratorium at 10%; ECL provisions at 3.9% of AUM

Customers corresponding to 10% of AuM have not paid a single instalment. Satin is on a daily basis monitoring collection from this pool. However, as a buffer the company has an ECL provision cover of 3.9% of AUM (of which 1.3% was additionally provided on account of COVID-19 in Q4FY20) compared to a GNPA ratio of 2.9%. Credit costs for FY21E are expected to be in the 3-4% range, and we have baked in 3.2%. Satin has healthy on-book liquidity of Rs19.6bn and undrawn sanctions of Rs10.6bn. Capital adequacy is strong with Tier-I capital at ~25%.

Valuation and risks

For FY21/22E we lower our AuM growth/other income est. which would be partly offset by a reduction in opex/provisions resulting in FY21/22E PAT contracting by 22%/10%. We like Satin due to its MFI business and inexpensive valuations. Maintain BUY/multiple at 0.5x FY22 ABV and revise TP to Rs110 (earlier Rs115). Risks: higher provisions.

Financial and valuation summary

YE Mar (Rs mn)	2QFY21A	2QFY20A	YoY (%)	1QFY21A	QoQ (%)	FY20A	FY21E	FY22E
NII	1112	1158	(4.0)	1175	(5.3)	5,048	4,594	5,319
PPoP	678	904	(25.0)	494	37.4	4,020	2,911	4,030
Provisions	452	140	NM	320	41.2	1,888	1,548	1,100
PAT	128	549	(76.7)	129	(0.4)	1,563	913	2,168
AUM growth (%)	5.1	15.3	(10.2)	11.0	(5.9)	13.3	3.4	11.0
NIM (%)	6.4	7.2	(80bps)	6.5	(14bps)	8.3	7.3	7.9
C / I (%)	58.6	54.4	4.1	63.2	(4.6)	51.4	57.0	52.4
GNPA (%)	2.9	3.1	(20bps)	2.4	50bps	2.1	3.4	2.7
RoA (%)	0.7	3.4	(2.7)	0.7	0.0	2.2	1.3	3.0
P/ABV (x)						1.0	0.2	0.3

Source: Company, Centrum Broking

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Result Update

India | BFSI

17 November, 2020

BUY

Price: Rs63

Target Price: Rs110

Forecast return: 75%

Institutional Research

Market Data

Bloomberg:	SATIN IN
52 week H/L:	229/42
Market cap:	Rs3.7bn
Shares Outstanding:	52.0mn
Free float:	30.6%
Avg. daily vol. 3mth:	335,291
Source: Bloomberg	

Changes in the report

Rating:	Unchanged
Target price:	To Rs110 vs Rs115 earlier
EPS:	(22%) in FY21E/(10%) in FY22E
Source: Centrum Broking.	

Shareholding pattern

	Sep-20	Jun-20	Mar-20	Dec-19
Promoter	37.9	30.2	30.2	30.2
FIIIs	6.7	7.6	7.6	7.8
DIIIs	17.6	18.3	23.3	25.3
Public/other	37.9	44.0	38.9	36.8

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Actual Q2FY21	Centrum Q2FY21	Variance (%)
NII	1,112	1,129	(1.4)
PPoP	678	645	5.1
PAT	128	146	(12.2)
AuM growth	5.1	6.7	(1.6)

Source: Bloomberg, Centrum Broking



Gaurav Jani

Analyst, BFSI

+91-22-4215 9110

gaurav.jani@centrum.co.in



Rahul Nandwani

Associate, BFSI

22-4215 9364

rahul.nandwani@centrum.co.in

BFSI

Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY21E New	FY21E Old	Variance (%)	FY22E New	FY22E Old	Variance (%)
NII	4,594	4,868	(5.6)	5,319	5,992	(11.2)
PPoP	2,911	3,152	(7.6)	4,030	4,346	(7.3)
PAT	913	1,166	(21.7)	2,168	2,400	(9.7)
loan growth (%)	3.4	12.0	(8.6)	11.0	18.0	(7.0)
GNPA (%)	3.4	3.6	(16bps)	2.7	3.1	(38bps)

Source: Centrum Broking

Satin versus Nifty Midcap 100

	1m	6m	1 year
SATIN IN	20.9	30.4	(69.7)
Nifty Midcap 100	11.1	43.6	11.0

Source: Bloomberg, NSE

Key assumptions

YE Mar	FY21E	FY22E
Loan growth	3.4	11.0
NIM	7.3	7.9
Other inc / Assets	3.4	4.5
Cost / Assets	5.2	5.6
Provision costs	3.2	2.0

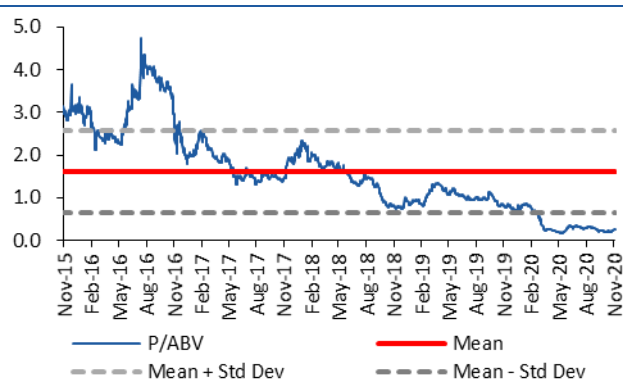
Source: Centrum Broking

Valuations

For FY21/22E we lower our AuM growth/other income est. which would be partly offset by a reduction in opex/provisions resulting in FY21/22E PAT contracting by 22%/10%. We like Satin due to its MFI business and inexpensive valuations. Maintain BUY/multiple at 0.5x FY22 ABV and revise TP to Rs110 (earlier Rs115). Risks: higher provisions.

Valuations	Rs/share
FY22E ABVPS (Rs)	244
Historical P/ABV (x)	1.6
Premium assigned	(70%)
Ascribed P/ABV (x)	0.5
Fair value/share (Rs)	110

P/BV mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

Company	Mkt Cap Rs bn	CAGR FY20-FY22E (%)			P/BVPS			RoA (%)			RoE (%)		
		Total inc.	PPOP	PAT	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Satin CreditCare	3.8	1.1	0.1	17.8	0.9	0.2	0.2	1.7	0.9	2.1	12.0	6.0	12.6
Ujjivan SFB	55.9	13.0	28.8	28.7	2.5	1.6	1.4	2.2	1.9	2.7	15.2	11.4	15.4
Bandhan Bank	532.5	23.3	31.6	25.1	3.8	3.3	2.8	4.4	2.8	3.3	24.3	16.4	19.7
Spandana	38.2	17.1	14.3	31.4	1.4	1.2	1.0	7.2	8.4	8.5	17.7	18.0	20.2
Equitas	15.3	23.3	57.8	38.8	0.6	0.5	0.5	1.5	1.6	1.5	10.4	12.5	12.7
AU SFB	236.3	25.2	23.1	29.3	5.6	4.7	4.0	1.8	1.3	1.5	18.1	14.5	16.2
CreditAccess	105.3	14.1	10.1	31.5	3.8	3.3	2.8	5.5	4.5	5.4	18.5	16.4	21.2

Source: Company, Centrum Broking

Exhibit 1: Key concall takeaways and metrics

FY21E Guidance	Q2FY21	Q1FY21	Our Comments
AuM growth	-	-	Disbursements at Rs6.3bn improved QoQ since operations began in June'20. Till Aug-20, Satin was cautious and only disbursed to existing customers. From Sept-20 onwards, Satin has started adding new customers. We lower our loan growth estimates for FY21E to 3.4% YoY (earlier 12.0%) as the company is prioritising collections over disbursements to
NIM	-	-	Owing to higher slippages, NIM for FY21E might dip by 100bps YoY to 7.3% (vs.7.9% in FY22E) given the cost of funding is guided to stay around 11% and yields have seen a contraction in Q1/Q2FY21.
Opex	-	-	Although we see lower AUM growth and contraction in NIMs, the company aims to bring down the cost to income by focusing on reducing cost in areas like employee/branch additions, variable pay, rent, etc. Management interaction suggests that for FY21E the company is targeting to keep opex to assets below 5.5%. We see opex to AuM of 5.2% in FY21E.
Provisions costs	-	2.5-3%	Given COVID-19 related lockdown impact, FY21 credit costs might spike. The management has guided a 3.0-5.0% provision cost for the system in FY21E. We see provisions of 320bps (vs 330bps earlier) due to the pace of recovery. In FY22E we expect provisions to taper down to 200bps.
Consol. PAT			We see standalone FY21E RoA/RoE at 0.9%/6.0% which in FY22E could scale up to 2.1%/12.6%.

Source: Company, Centrum Research

Exhibit 2: Quarterly Financials

Rs mn	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Profit & Loss								
Interest earned	3,022	2,575	2,715	2,627	2,728	2,715	2,730	2,621
Interest expended	1,666	1,510	1,506	1,468	1,416	1,347	1,555	1,509
Net interest income	1,356	1,065	1,209	1,158	1,312	1,368	1,175	1,112
Other income	792	726	614	825	745	1,040	165	524
Total income	2,148	1,791	1,824	1,983	2,057	2,408	1,340	1,636
Operating expenses	909	1,065	994	1,080	978	1,121	847	958
Employees	703	731	730	761	721	754	667	698
Others	206	333	265	318	257	366	180	260
Operating profit	1,239	726	829	904	1,079	1,287	494	678
Provisions	99	(121)	180	140	529	1,118	320	452
Profit before tax	1,139	847	649	764	550	169	174	226
Tax	439	292	236	215	74	45	45	98
Profit after tax	700	555	414	549	477	125	129	128
Balance sheet								
AUM (Rs mn)	55,900	63,740	64,670	64,140	63,900	72,200	71,810	67,440
AUM growth (%)	29.9	25.4	19.8	15.3	14.3	13.3	11.0	5.1
Total CRAR (%)	30.1	28.5	30.5	30.1	32.2	30.5	31.1	32.3
Profitability ratios (reported %)								
Gross yield	27.4	22.1	20.7	21.4	21.7	20.6	16.1	18.1
Financial cost	12.0	10.1	9.4	9.1	8.9	8.4	8.6	8.7
NIM	9.7	7.1	7.5	7.2	8.2	8.0	6.5	6.4
Opex ratio	6.5	7.1	6.4	6.7	6.0	6.1	4.7	5.1
Loan loss ratio	0.7	-0.8	1.1	0.9	3.4	3.0	1.8	3.0
ROA	5.0	3.7	2.6	3.4	3.0	0.7	0.7	0.7
Leverage	5.1	4.6	3.9	3.6	3.4	3.7	3.6	3.6
ROE	26.9	20.0	13.5	16.5	13.8	10.1	10.1	10.1
Cost to income	42.3	59.5	54.5	54.4	47.5	46.5	63.2	58.6
Asset quality ratios (%)								
GNPA	3.2	2.9	2.8	3.1	3.1	2.9	2.4	2.9
ECL	2.0	1.6	1.6	1.7	2.2	2.3	2.2	3.9

Source: Company, Centrum Research estimates

P&L					
YE Mar (Rs mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Interest income	9,573	11,795	10,784	10,407	10,836
Interest expense	5,317	6,390	5,737	5,813	5,517
NII	4,256	5,405	5,048	4,594	5,319
Other income	194	1,935	3,225	2,169	3,144
Total income	4,450	7,340	8,272	6,763	8,463
Operating expenses	2,740	3,763	4,252	3,852	4,433
Employee	1,892	2,648	2,967	2,791	3,196
Others	848	1,115	1,286	1,061	1,237
PPOP	1,711	3,577	4,020	2,911	4,030
Provisions	445	521	1,888	1,548	1,100
PBT	1,266	3,056	2,132	1,363	2,930
Tax	445	1,107	569	450	762
PAT	821	1,949	1,563	913	2,168

Ratios					
YE Mar	FY18A	FY19A	FY20A	FY21E	FY22E
Growth (%)					
AUM	40.6	25.3	13.3	3.4	11.0
Borrowings	0.0	30.0	36.0	31.5	30.5
NII	41.6	27.0	(6.6)	(9.0)	15.8
Other income	(52.6)	895.9	66.6	(32.7)	44.9
Opex	7.9	37.4	13.0	(9.4)	15.1
PPoP	95.1	109.1	12.4	(27.6)	38.4
Provisions	(12.0)	17.1	262.7	(18.0)	(28.9)
PAT	235.3	137.3	(19.8)	(41.6)	137.4
Profitability (%)					
Yield on advances	18.1	19.5	17.7	16.6	16.0
Cost of funds	13.0	14.0	11.5	11.4	11.2
NIM (on AuM)	8.1	8.9	8.3	7.3	7.9
Other Income/ Total Income	4.4	26.4	39.0	32.1	37.1
Other Income / Total Assets	0.4	3.0	4.7	3.4	4.5
Cost/Income	61.6	51.3	51.4	57.0	52.4
Employee	42.5	36.1	35.9	41.3	37.8
Others	19.1	15.2	15.5	15.7	14.6
Opex/ Avg AuM	6.3	6.6	6.3	5.2	5.6
Provisions	1.0	1.1	4.2	3.2	2.0
Tax Rate	35.1	36.2	26.7	33.0	26.0
RoA	1.3	2.9	2.2	1.3	3.0
RoE	12.2	19.1	12.0	6.0	12.6

DuPont (% avg assets)					
YE Mar	FY18A	FY19A	FY20A	FY21E	FY22E
Interest income	16.4	15.6	11.8	10.6	10.7
Interest expense	9.1	8.5	6.3	5.9	5.4
NII	7.3	7.1	5.5	4.7	5.2
Other income	0.3	2.6	3.5	2.2	3.1
Total income	7.6	9.7	9.1	6.9	8.3
Operating expenses	4.7	5.0	4.7	3.9	4.4
Employee	3.2	3.5	3.2	2.9	3.1
Others	1.5	1.5	1.4	1.1	1.2
PPOP	2.9	4.7	4.4	3.0	4.0
Provisions	0.8	0.7	2.1	1.6	1.1
PBT	2.2	4.0	2.3	1.4	2.9
Tax	0.8	1.5	0.6	0.5	0.8
PAT	1.4	2.6	1.7	0.9	2.1

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Financial assets	61,096	66,082	70,149	68,594	71,254
Cash	4,458	10,039	11,074	12,524	8,057
Bank balance	6,374	6,940	6,543	5,112	5,755
Loans	48,452	44,601	47,094	45,504	51,319
Investment	1,486	4,219	5,133	5,112	5,755
Other financial assets	326	284	305	342	368
Non-financial assets	1,467	960	1,211	1,585	950
Current tax assets	0	0	315	0	0
Deferred tax assets	887	312	(114)	358	403
Fixed Assets	554	617	903	1,227	547
Other Non-fin. assets	25	31	106	0	0
Total Assets	62,563	67,042	71,359	70,179	72,204
Financial liabilities	53,436	55,230	56,714	54,179	53,157
Debt securities	9,193	9,759	8,639	8,238	8,082
Borrowings	38,624	37,200	40,021	38,164	37,443
Subordinated Debt	3,692	5,392	5,431	5,179	5,081
Other financial liabilities	1,927	2,879	2,623	2,598	2,552
Non-financial liabilities	270	329	186	288	296
Provisions	102	135	109	168	172
Other Non-fin liabilities	77	76	78	120	124
Total equity	8,919	11,514	14,528	15,712	18,750
Share capital	473	485	517	568	718
Other equity	8,446	11,029	14,011	15,144	18,032
Total Liabilities	62,626	67,073	71,429	70,179	72,204
Balance Sheet ratios (%)					
Debt / Equity	5.8	4.5	3.7	3.3	2.7
Assets / Equity	7.0	5.8	4.9	4.5	3.9
Cash / Borrowings	21.0	32.4	32.6	34.2	27.3
Capital Adequacy (%)					
CRAR	21.2	28.5	30.5	32.5	32.9
Tier-1	14.6	19.9	22.1	24.1	24.5
Tier-2	6.6	8.6	8.4	8.4	8.4
Asset quality (%)					
GNPA (Rs mn)	2,152	1,779	1,505	2,566	2,256
NNPA (Rs mn)	742	1,061	850	1,096	1,129
GNPA	4.2	2.8	2.1	3.4	2.7
NNPA	1.5	1.7	1.2	1.5	1.4
PCR	65.5	40.4	43.5	57.3	50.0
NNPA / Equity	8.3	9.2	5.8	7.0	6.0
Per share (Rs)					
EPS	17.4	40.2	30.2	16.1	30.2
BVPS	188.7	237.3	280.9	276.7	261.2
ABVPS	173.0	215.4	264.5	257.4	245.5
Valuation (x)					
P/E	8.8	10.2	15.9	3.9	2.1
P/BV	1.5	1.1	0.9	0.2	0.2
P/ABV	1.6	1.2	1.0	0.2	0.3

Source: Company, Centrum Broking

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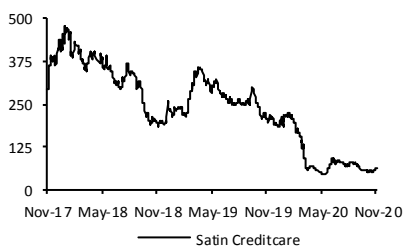
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Satin Creditcare



Source: Bloomberg

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PORTFOLIO MANAGER

SEBI REGN NO.: INP000004383

Research Analyst

SEBI Registration No. INH000001469

Mutual Fund Distributor

AMFI REGN No. ARN- 147569

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
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