

Satin Creditcare Network Limited

Winds of Change

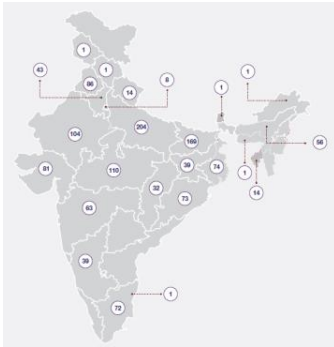


Earnings volatility to
reduce

Cyclical tailwinds and
structural changes to
aid rerating

Valuations suppressed;
Initiate with BUY

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Satin Creditcare Network Ltd. (Satin or SCNL) is well-placed to benefit from cyclical tailwinds in microfinance, and driven by its own silent transformation, we believe Satin should be able to deliver avg RoAs of 4.7% over FY24/FY25E which translates into avg RoEs of 22.0% over FY24/25E. Strategic changes at key leadership positions, strengthening of the governance standards and meaningful process improvements should ensure continued delivery on growth and profitability.

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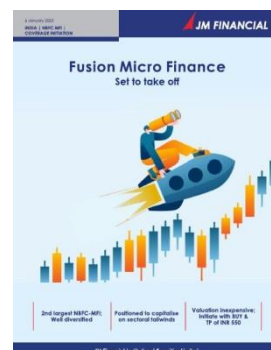
Affordable HFCs



Five-Star Business Finance



MFI Sector Jun23



Fusion Micro Finance



CreditAccess Grameen

Satin Creditcare Network Limited

“Winds of Change”

Satin Creditcare Network Ltd. (Satin or SCNL) is undergoing a change for good. Having weathered multiple crises over the past five years (NBFC-liquidity crisis post IL&FS in 2018, Assam microfinance issue in 2019/20 and Covid-19), Satin has reduced its geographical concentration (contribution of top 4 states at 55% vs 88% as of Mar'16), as well as continued to diversify its lender base (70 active lenders as of June-23). In addition, impact of Covid-19 on Satin's asset quality has been much less than feared (cumulative write-offs at 11% of avg. FY20-21 AUM which is amongst the lower side in our microfinance universe). In addition, as it emerged out of Covid-19, Satin has also focused on transforming into a more efficient franchise (Operating cost/avg assets to drop to 6.2% in FY25E). The company is well-placed to benefit from cyclical tailwinds in microfinance, and driven by its own silent transformation, we believe Satin should be able to deliver avg RoAs of 4.7% over FY24/FY25E which translates into avg RoEs of 22.0% over FY24/25E. Strategic changes at key leadership positions, strengthening of the governance standards and meaningful process improvements should ensure continued delivery on growth and profitability. This should enable Satin to meaningfully reduce the “risk perception” of the business and witness meaningful valuation upsides. We initiate coverage with a BUY rating and a target price of INR 320 (valuing Satin at 1.20x FY25E P/BV and 6.0x FY25E P/E). Relapse of asset quality pressures is a key risk to our call.

Silent transformation – diversification, efficiency and profitability: After facing a brief hiatus during Covid-19, SCNL has shown an impressive recovery in disbursements and resultant AUM growth improved to 20% YoY with AUM at INR 91.2bn as of Mar'23. While growth for FY20-23 was largely driven by increase in ticket sizes, we see SCNL's incremental growth to be driven on the back of customer acquisitions as new customer onboarding has restarted at a healthy pace. Further, SCNL which has been traditionally a north-Indian player, has now expanded its footprint in the eastern, north-eastern and southern states as well. Proportion of AUM from top 4 states (Uttar Pradesh, Bihar, Punjab and Madhya Pradesh) has come down to c.55% as of Mar'23 vs 88% as of Mar'16. We expect SCNL to grow at a 24% CAGR over FY23-25E in line with the industry aided by revival of business momentum and regulatory tailwinds.

Multiple crises weathered; Covid-19 impact much less than feared: SCNL's asset quality, which was impacted on account of Covid-19 disruption, has bounced back strongly and proactively front-ended the expected P&L impact, with cumulative write-offs of c.9bn over last 3 years (11% of avg. FY20-21 AUM), which is one of the lowest among MFI peers. This has resulted in improvement in GS-3 and NS-3 numbers to 3.2% and 1.6% as of Mar'23. Further, new portfolio originated from July 2021 onwards (c.94% of MFI AUM) is seeing better asset quality performance with PAR 1 at 0.7% and PAR 90 at 0.3%. We expect SCNL to continue on its path of asset quality improvement leading to a moderation in credit costs going ahead. We build in credit costs of 1.4-1.6% over FY24-25E.

Valuations underappreciate cyclical benefits and structural improvements: Satin is well-placed to benefit from cyclical tailwinds in the sector as it exits turbulence caused by Covid-19 over the past couple of years and driven by its own silent transformation. Strategic changes at key leadership positions, strengthening of the governance standards and meaningful process improvements should ensure continued delivery on growth and profitability. This should enable Satin to meaningfully reduce the “risk perception” of the business and witness meaningful valuation upsides. Current valuations of 0.8x FY25E P/BV and 3.8x FY25E P/E do not do justice to an entity which is set to deliver avg RoAs and RoEs of 4.7% and 22.0% over FY24/FY25E. We initiate coverage with a BUY rating and a TP of INR 320 (valuing it at 1.20x FY25E P/BV and 6.0x FY25E P/E).

Recommendation and Price Target	
Current Reco.	BUY
Current Price Target (12M)	320
Upside/(Downside)	55.3%

Key Data – SATIN IN	
Current Market Price	INR206
Market cap (bn)	INR18.2/US\$0.2
Free Float	59%
Shares in issue (mn)	99.6
52-week range	222/102
Sensex/Nifty	66,160/19,646
INR/US\$	82.3

Price Performance			
%	1M	6M	12M
Absolute	20.6	40.3	78.4
Relative*	18.0	26.3	55.2

* To the BSE Sensex

Financial Summary						(INR mn)
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E	
Net Profit	-140	207	48	4,020	5,331	
Net Profit (YoY) (%)	-109.0%	-248.0%	-76.7%	8,252.1%	32.6%	
Assets (YoY) (%)	10.2%	-4.8%	2.5%	26.2%	23.5%	
ROA (%)	-0.2%	0.3%	0.1%	4.5%	4.8%	
ROE (%)	-1.0%	1.4%	0.3%	21.6%	22.4%	
EPS	-2.1	2.8	0.6	40.5	53.7	
EPS (YoY) (%)	-107.0%	-231.9%	-79.5%	7,038.9%	32.6%	
P/E (x)	-97.9	74.2	362.9	5.1	3.8	
BV	224	205	189	213	267	
BV (YoY) (%)	-20.2%	-8.1%	-8.2%	13.2%	25.2%	
P/BV (x)	0.92	1.00	1.09	0.96	0.77	

Source: Company data, JM Financial. Note: Valuations as of 28/July/2023

JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters, S&P Capital IQ, FactSet and Visible Alpha

You can also access our portal: www.jmflresearch.com

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

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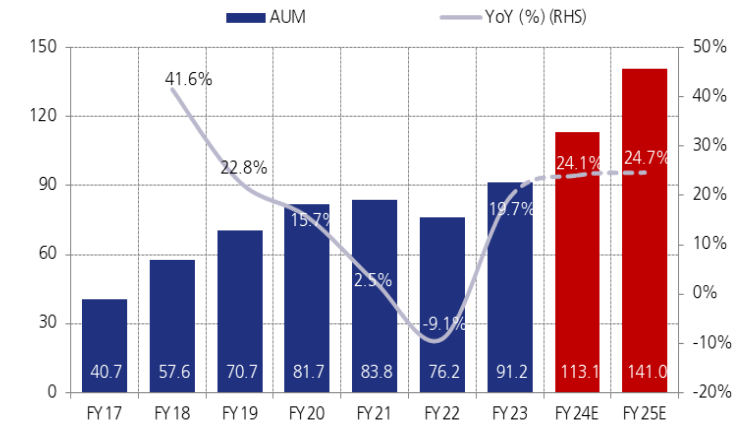
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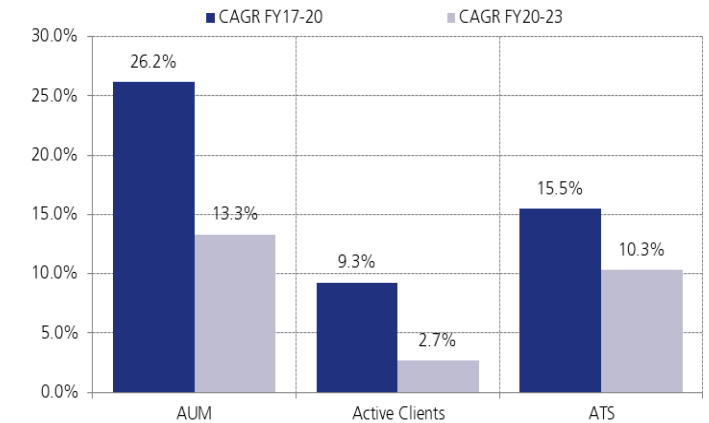
Focus Charts

Exhibit 1. SCNL: Trend in AUM



Source: Company, JM Financial; INR bn

Exhibit 2. SCNL: AUM, active clients and ATS CAGR



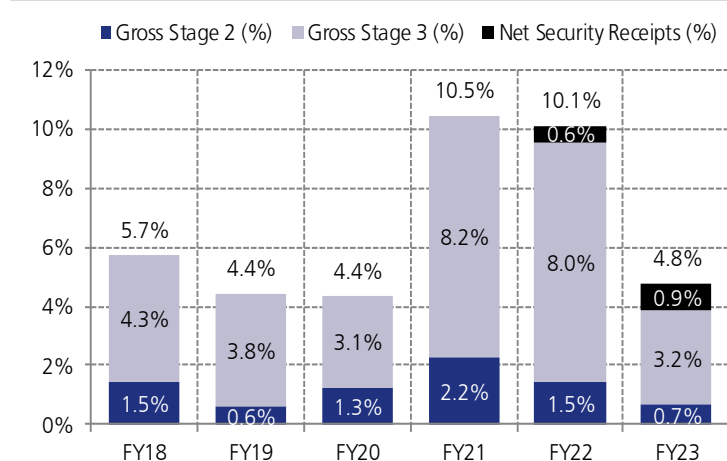
Source: Company, JM Financial

Exhibit 3. SCNL: Trend in productivity metrics

	FY18	FY19	FY20	FY21	FY22	FY23
Total no. of Branches	995	1,163	1,383	1,257	1,224	1,287
Number of States	18	22	23	23	23	24
Total no. of Districts	302	340	383	388	404	405
Number of Active clients (mn)	2.82	3.55	3.46	3.05	2.81	2.83
Total no. of Employees	9,004	11,831	13,005	12,726	12,705	11,131
Total no. of Loan officers	6,382	6,296	8,152	8,090	8,774	7,499
Employees per branch	9.0	10.2	9.4	10.1	10.4	8.6
Loan officers per branch	6.4	5.4	5.9	6.4	7.2	5.8
Active clients per loan officer	441	563	424	377	320	377
AUM per loan officer (INR mn)	6.37	9.14	8.67	10.10	9.55	10.16

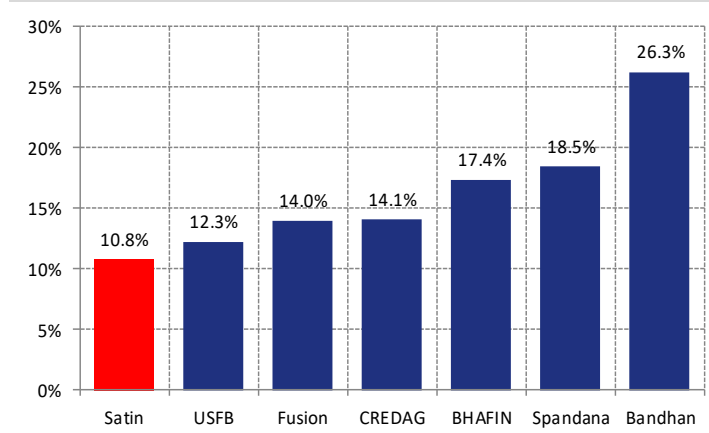
Source: JM Financial, Company

Exhibit 4. SCNL: Net stress

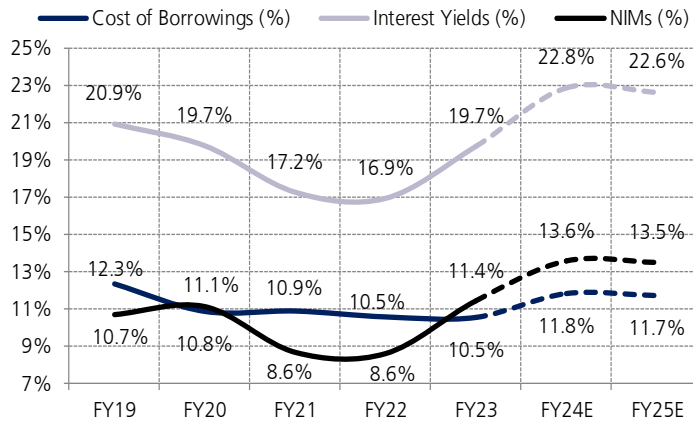


Source: Company, JM Financial

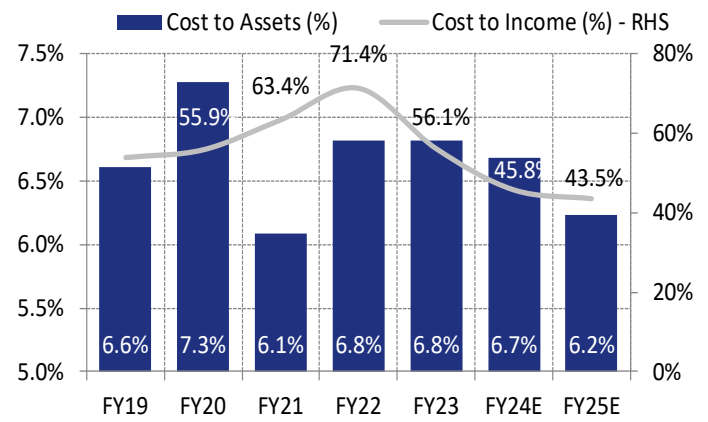
Exhibit 5. Cumulative write-offs over FY21-23 as % of avg. FY20-21 AUM



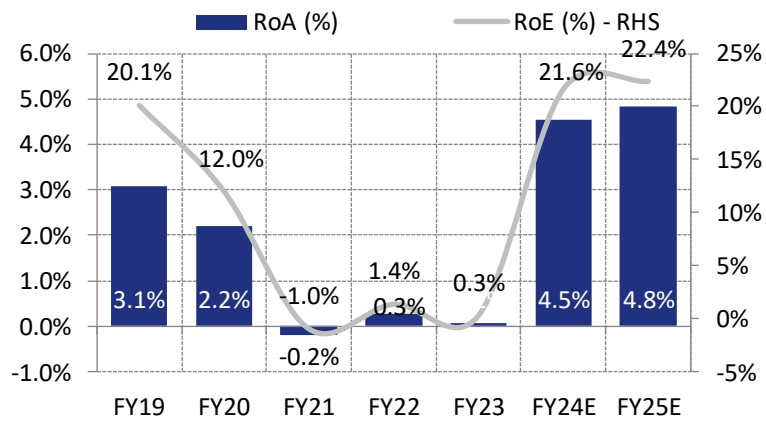
Source: Company, JM Financial

Exhibit 6. SCNL: Trend in cost of borrowings, yields and NIMs

Source: Company, JM Financial; INR bn

Exhibit 7. SCNL: Trend in Cost ratios

Source: Company, JM Financial; INR bn

Exhibit 8. SCNL: Trend in return ratios

Source: Company, JM Financial

Company Overview

Satin Creditcare Network Limited (SCNL) is an NBFC-MFI providing a comprehensive range of products and services for the financially under-served community. While SCNL started as a North India dominated microfinance company, it has now successfully transformed its image to become a Pan-India player with operations in 24 states and union territories and has a strong presence across 384 districts and 79,460 villages through its robust network of 1,260 branches spread across the country on a standalone basis. It currently has 2 subsidiaries: a) Satin Finserv Limited (SFL) which offers small ticket-size secured MSME/SME loans, with a primary focus on traders, retail/wholesale merchants, manufacturers, service providers, self-employed or professionals, education ventures and agribusinesses and b) Satin Housing Finance Limited (SHFL) which provides affordable home loans to individuals belonging to the middle and low-income groups who reside in the outskirts of tier-II and below cities to construct, purchase, repair, or upgrade houses, as well as mortgage business loans. SCNL also had an erstwhile subsidiary Taraashna Financial Services Limited (TFSL), which was involved in business correspondent (BC) operations, which has now merged into SFL. The merger is expected to help SCNL leverage the resources of both verticals, derive synergies and, hence, increase the overall operational efficiency of the combined entity.

As of Mar'23, SCNL's consolidated AUM stood at INR 91,160mn with an active client base of 2.83mn. Standalone MFI AUM stood at INR 79,290mn with active client at 2.56mn while AUM for subsidiaries SFL and SHFL stood at INR 6,820mn and 5,050mn resp.

Exhibit 9. SCNL: Shareholding as of 21Jul'23

Category	% shareholding
Promoter and Promoter Group	39.98%
Public:	
Foreign Institutions	5.29%
Mutual Funds	1.64%
Banks	2.79%
Others	50.30%
-Florintree Ventures LLP	12.35%

Source: Company, JM Financial

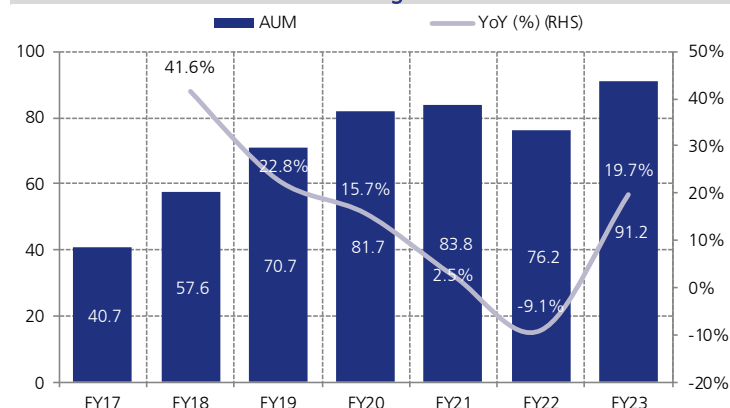
Established track record with reducing portfolio concentration

SCNL commenced its microfinance operations in the year 2008 and is primarily based on the Joint Liability Group model, which allows it to provide collateral-free, microcredit facilities to economically active women in both rural and semi-urban areas, who otherwise have limited access to mainstream financial service providers.

SCNL witnessed a strong AUM CAGR of 26.2% in the post demonetisation phase of FY17-20 with growth across business segments. However, the AUM growth was materially impacted in FY20-22 on account of Covid-19 induced volatile environment leading to uncertainty regarding collections and asset quality and management turned cautious on incremental disbursements during this period – disbursement fell 45% YoY in FY21 and remained subdued in FY22 as well. This led to a fall in AUM to INR 76.2bn as of Mar'22 (vs INR 83.8bn in Mar'20).

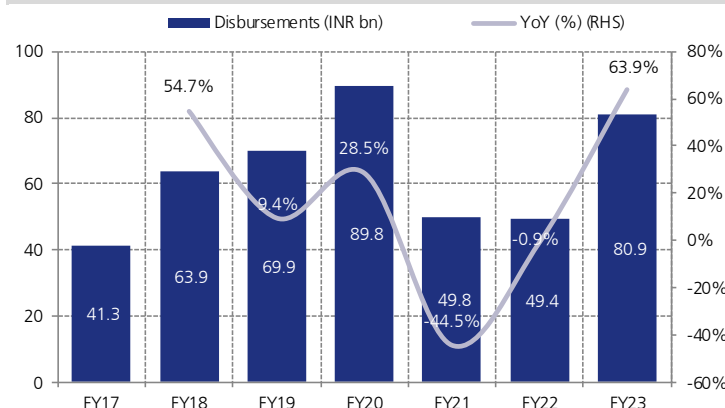
SCNL has, though, shown an impressive recovery in disbursements and resultantly AUM growth in FY23 with the impact of Covid-19 behind and its AUM stood at INR 91.2bn as of Mar'23.

Exhibit 10. SCNL: Trend in AUM and growth



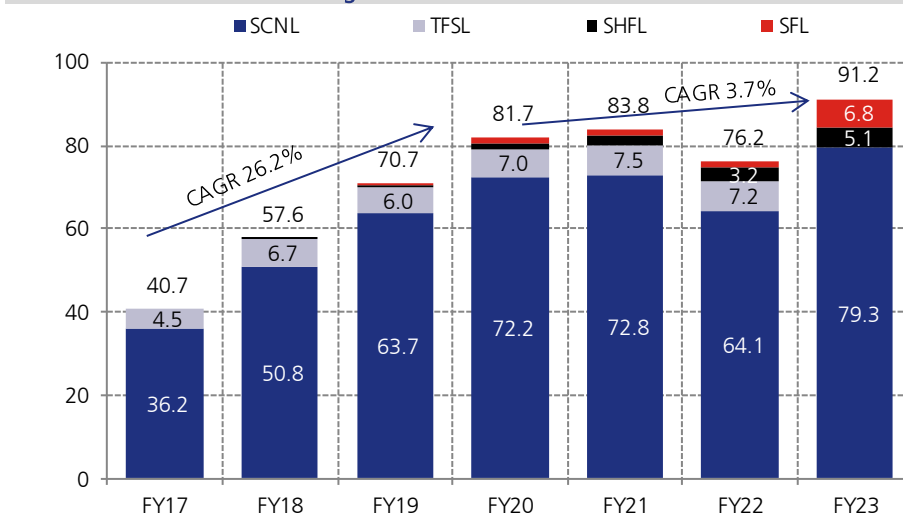
Source: Company, JM Financial; INR bn

Exhibit 11. SCNL: Trend in disbursements



Source: Company, JM Financial; INR bn

Exhibit 12. SCNL: Trend in AUM growth



Source: Company, JM Financial; INR bn

Exhibit 13. SCNL: Features of key offerings

Product	Description	Loan Size (INR)	Loan Tenure (in months)	Rate of Interest (%)
Income Generation (MFI) Loans	Collateral-free, microcredit facilities to economically active women in both rural and semi-urban areas, who otherwise have limited access to mainstream financial service providers. Animal husbandry, production, service, and trade are major sub-sectors where income generating loans are deployed.	10,000-75,000	12-30	21-25
MSME Loans	Loan offered to merchants, retailer, wholesaler, manufacturing, service providers, salaried, self-employed professional and agri business.	100,000-1,500,000	Max 84	20-27
Lending to Corporate Institutions & Micro Finance Companies	Loan offered to Corporate Institutions & Micro Finance Companies	10,000,000-100,000,000	Max 60	12-22
Product Financing	Customized loans to facilitate access to clean energy, better mobility, safe water and sanitation facilities	1,700-32,000	6-24	21-25
Home Loans	Affordable home loans to individuals belonging to the middle and low-income groups who reside in the outskirts of tier-II and below cities to construct, purchase, repair, or upgrade houses, as well as mortgage business loans	100,000-4,000,000	24-240	12-18

Source: Company, JM Financial

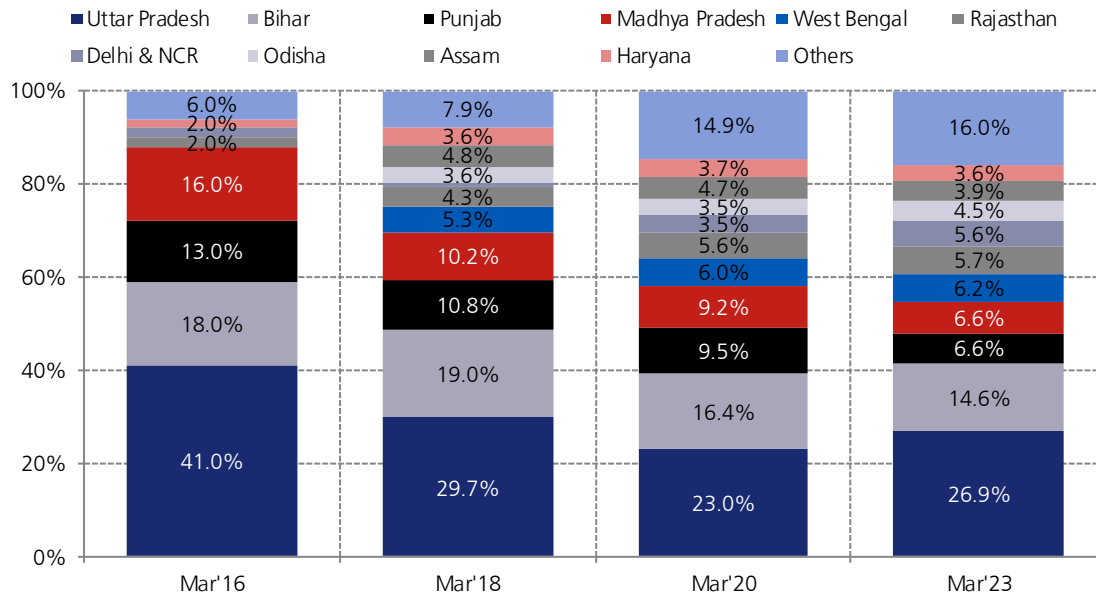
Exhibit 14. SCNL: Trend in productivity metrics

	FY18	FY19	FY20	FY21	FY22	FY23
Total no. of Branches	995	1,163	1,383	1,257	1,224	1,287
Number of States	18	22	23	23	23	24
Total no. of Districts	302	340	383	388	404	405
Number of Active clients (mn)	2.82	3.55	3.46	3.05	2.81	2.83
Total no. of Employees	9,004	11,831	13,005	12,726	12,705	11,131
Total no. of Loan officers	6,382	6,296	8,152	8,090	8,774	7,499
Employees per branch	9.0	10.2	9.4	10.1	10.4	8.6
Loan officers per branch	6.4	5.4	5.9	6.4	7.2	5.8
Active clients per loan officer	441	563	424	377	320	377
AUM per loan officer (INR mn)	6.37	9.14	8.67	10.10	9.55	10.16

Source: JM Financial, Company

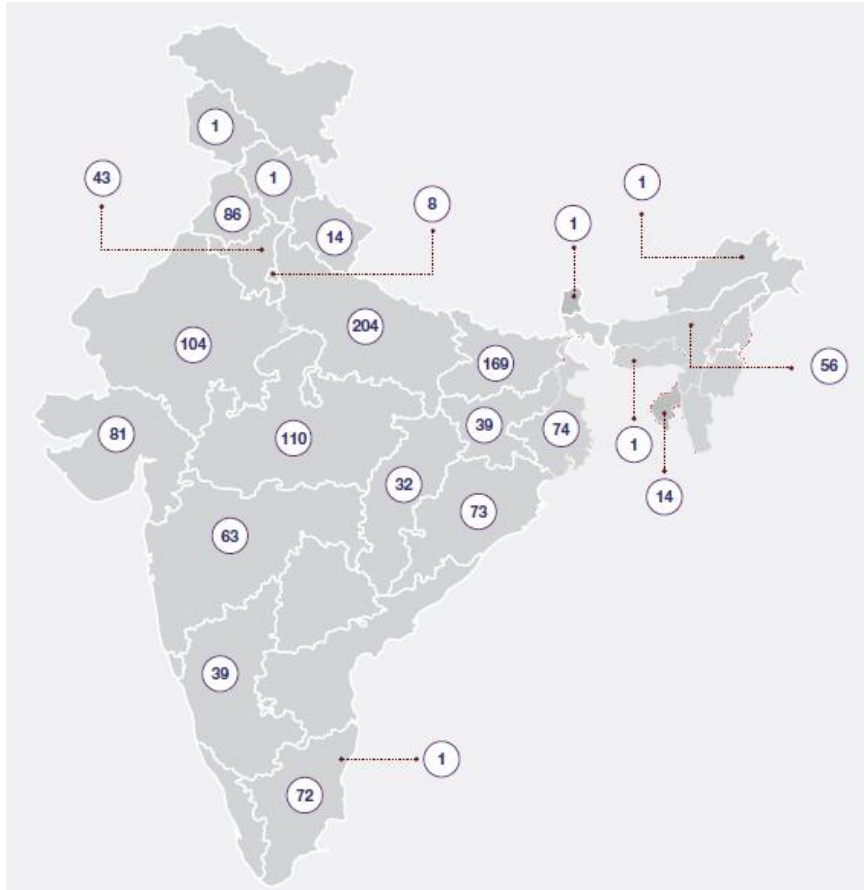
SCNL has been traditionally a north-Indian player, with presence mostly in the Hindi-speaking states, where it has a long-standing operating experience. However, post demonetization, the company expanded its footprint and has grown in the eastern, north-eastern and southern states as well. Proportion of AUM from top 4 states (Uttar Pradesh, Bihar, Punjab and Madhya Pradesh) has come down to c.55% as of Mar'23 vs 88% as of Mar'16.

Exhibit 15. SCNL: Diversification on a rise - Trend in State-wise distribution of AUM



Source: Company, JM Financial; Mar'16 &18 are based on standalone AUM while Mar'20 & 23 on consol. AUM

Exhibit 16. SCNL: Geographical distribution of branches



Source: Company, JM Financial

Exhibit 17. SCNL: District-wise concentration reducing

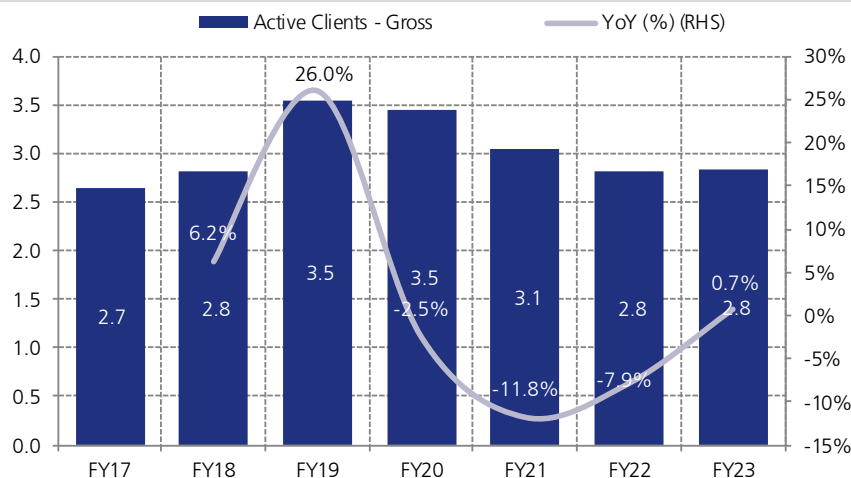
	FY18	FY19	FY20	FY21	FY22	FY23
No. of Districts - JLG	306	359	397	388	404	405
% of Districts with <1% exposure	92.5%	96.4%	95.6%	95.8%	97.3%	96.0%
% of Districts with >2% exposure	1.0%	0.6%	0.5%	0.5%	0.3%	0.2%

Source: JM Financial, Company

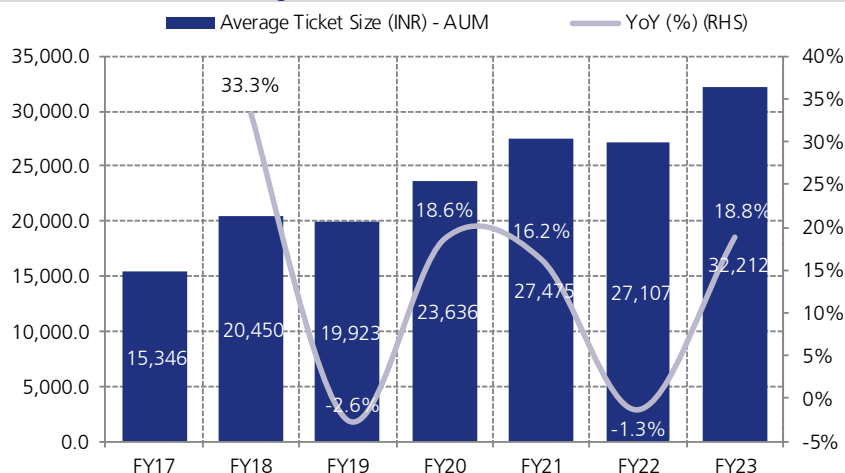
Expect incremental growth to be driven by new client acquisition

While historically AUM growth for SCNL has been driven by a balanced mix of growth in active customers and ATS, growth for FY20-23 was largely driven by increase in ticket sizes (partly aided by new MFI regulations) to existing customers in line with the industry trend (as highlighted in our [recent MFI sector report](#)).

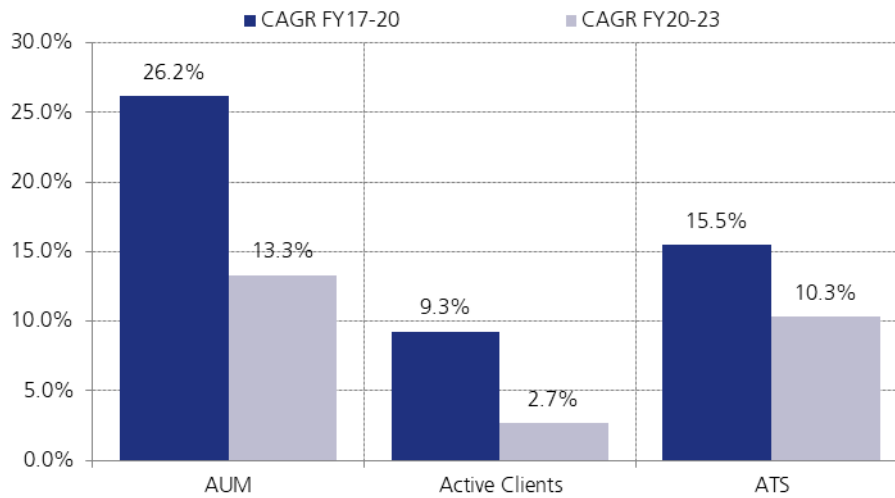
This was on account of SCNL being increasingly cautious on fresh lending especially to new customers. However, going ahead we see SCNL's growth to be driven on the back of strong customer acquisitions as new customer onboarding has restarted at a healthy pace. We expect SCNL to grow at a 24% CAGR over FY23-25E in line with the industry growth aided by revival of business momentum and regulatory tailwinds.

Exhibit 18. SCNL: Trend in active clients (mn)

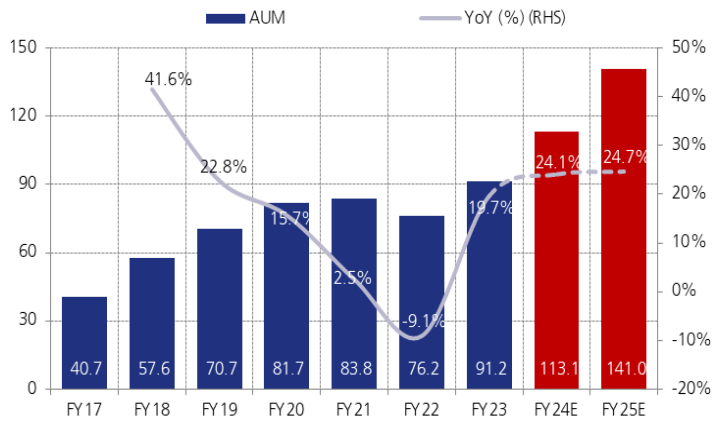
Source: Company, JM Financial

Exhibit 19. SCNL: Trend in average ticket size (INR) - AUM

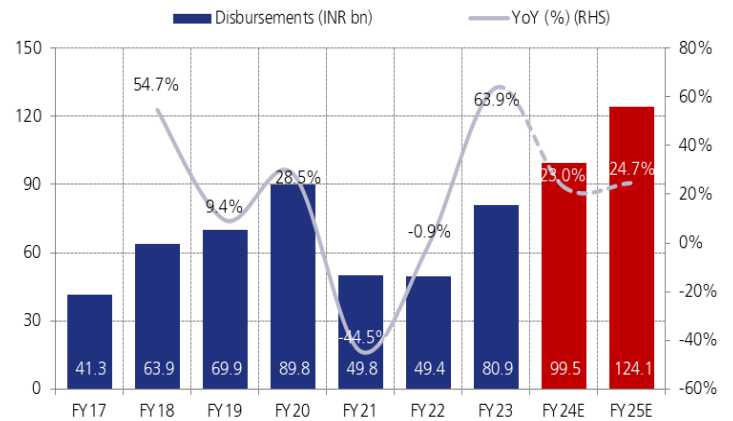
Source: Company, JM Financial

Exhibit 20. SCNL: AUM, active clients and ATS CAGR

Source: Company, JM Financial

Exhibit 21. SCNL: Trend in AUM

Source: Company, JM Financial; INR bn

Exhibit 22. SCNL: Trend in disbursements

Source: Company, JM Financial; INR bn

Exhibit 23. SCNL: Peer comparison

Peer Comparison	Fusion	CREDAG	Spandana	Satin
Portfolio				
AUM (INR bn) - FY23	93.0	210.3	85.1	91.2
Market share on GLP (%) - FY23	2.7%	6.0%	2.4%	2.6%
AUM CAGR (FY18-FY23) (%)	43%	33%	22%	10%
Clients (mn)	3.5	4.3	2.3	2.8
Client CAGR (FY18-FY23) (%)	28%	14%	7%	0%
Disbursement (INR bn) - FY23	86.0	185.4	81.3	80.9
Market share on disbursement - FY23	2.9%	6.3%	2.7%	2.7%
Asset quality (as of Mar'23)				
GNPL (%)	3.5%	1.2%	2.1%	3.2%
NNPL (%)	0.9%	0.4%	0.6%	1.6%
Restructuring (%)	0.2%	NA	NA	2.5%
Presence (as of Mar'23)				
Branches	1,086	1,786	1,227	1,287
Employees	9,262#	16,759	10,016	11,131
Loan Officers	6,640*	11,490	7,800	7,499
States	20	15	18	24
Districts	398	352	314	405
Efficiency ratios (as of Mar'23)				
Clients per employee	381	256	226	254
Clients per branch	3,250	2,403	1,842	2,199
Clients per loan officer	532	373	290	377
Employees per branch	9	9	8	9
GLP per branch (INR mn)	86	118	69	71
GLP per client (INR)	26,335	49,012	37,659	32,212
GLP per employee (INR mn)	10	13	8	8
GLP per loan officer (INR mn)	14	18	11	12
Cost to income (%) - FY23	38%	36%	45%	56%
Cost to AUM - FY23	5.53%	4.42%	5.72%	6.3%

Source: Company, JM Financial; #as of Jun22, *calculated

Covid-19 asset quality performance was far better than feared

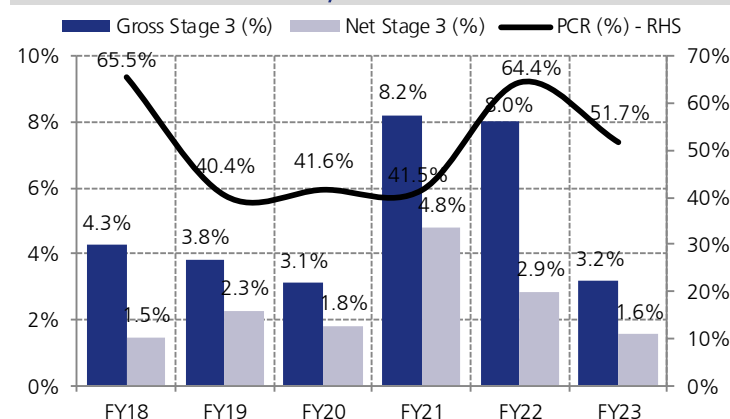
SCNL's asset quality was impacted on account of Covid-19 disruption with GS-3 and NS-3 increasing to the peak levels of 8.2% and 4.8% as of Mar'21. However, it has bounced back strongly and proactively front-ended the expected P&L impact, with cumulative write-offs of c.9bn over last 3 years, resulting in better GS-3 and NS-3 numbers of 3.2% and 1.6% as of Mar'23. Further, even GS-2 book is down to 0.7% and restructured portfolio is at 2.5% as of Mar'23. Total cumulative write-offs for SCNL was at 11% of avg. FY20-21 AUM, which is one of the lowest among MFI peers as shown in Exhibit 27 below, indicating that asset quality performance for SCNL is seeing a turnaround.

SCNL has undertaken following process changes on the asset quality front:

- Strong focus on collections with a conservative stance on disbursements with a view to mitigate portfolio risk. No loans being given to defaulting clients.
- Formation of a dedicated collections team to focus on hard buckets and write-off pool. SCNL has seen the benefit in the form of recovery against write-off of INR 480mn in FY23.
- Strengthened process and underwriting by switching to AWS, obtaining sub-KUA license, train the trainer program etc.
- Reduction in concentration in top 4 states; also focus on reducing district-wise concentration.
- Focus on cashless collections through various modes, to ensure smooth collection efforts.
- Implemented live tracking of Early Disbursement Par (EDP) with 0 tolerance in this bucket
- Risk team now capture data over and above the borrower CIBIL. They even collect data of relatives and connections. Instances of putting social pressure on the borrower to repay.
- More focus on the number of centre meetings handled by a loan officer rather than number of clients handled.

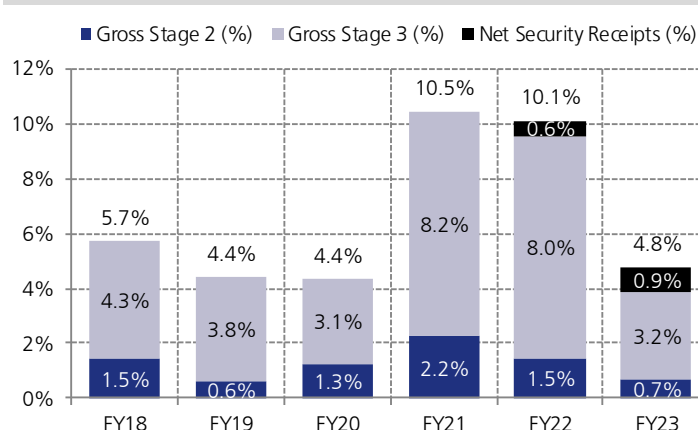
The new portfolio originated from July 2021 onwards (constituting c.94% of MFI AUM) is seeing much better asset quality performance with PAR 1 at 0.7% and PAR 90 at 0.3%. We expect SCNL to continue on its path of asset quality improvement leading to a moderation in credit costs going ahead. We build in credit costs of 1.4-1.6% over FY24-25E.

Exhibit 24. SCNL: Trend in GS3, NS3 and PCR

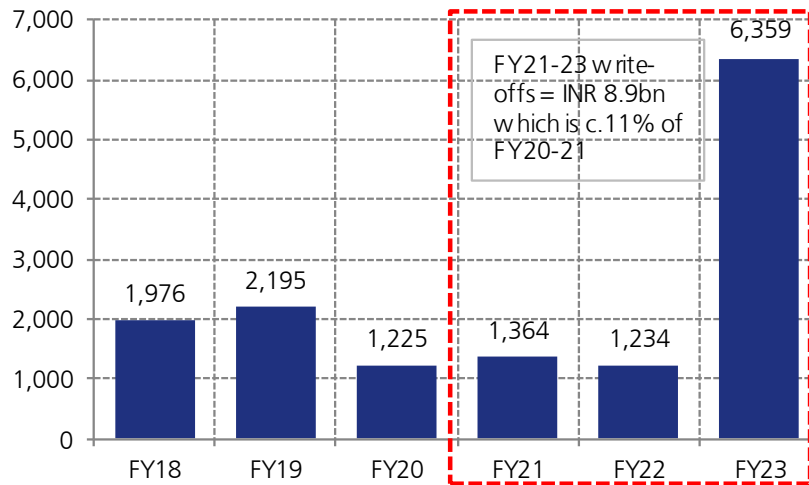


Source: Company, JM Financial

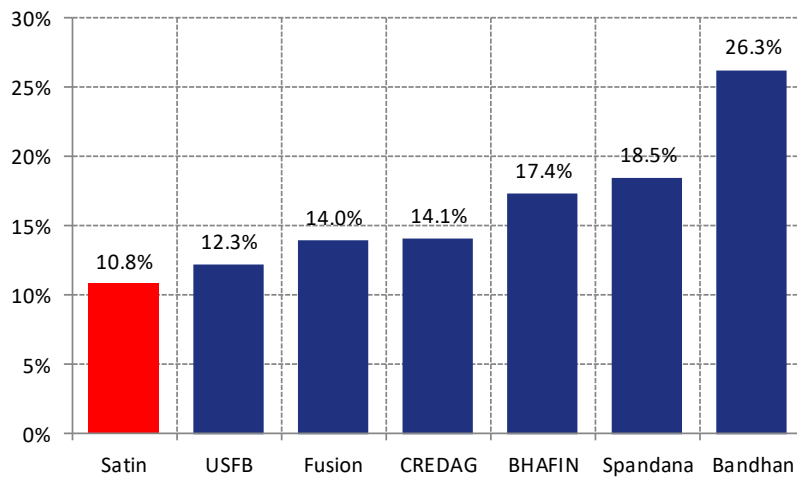
Exhibit 25. SCNL: Net stress



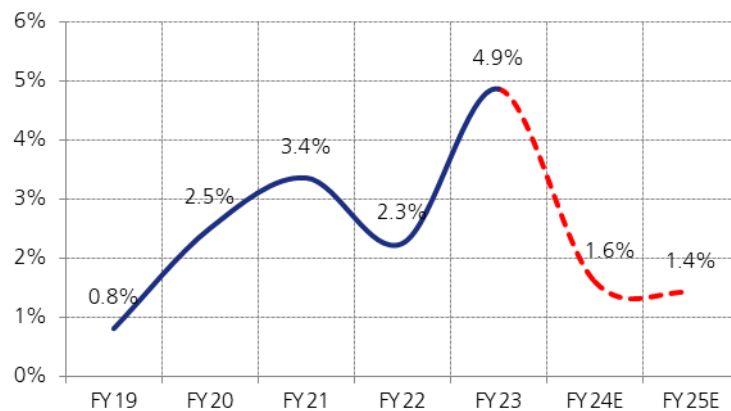
Source: Company, JM Financial

Exhibit 26. SCNL: Satin has lowest Covid-19 write-offs among peers

Source: Company, JM Financial

Exhibit 27. Cumulative write-offs over FY21-23 as % of avg. FY20-21 AUM

Source: Company, JM Financial

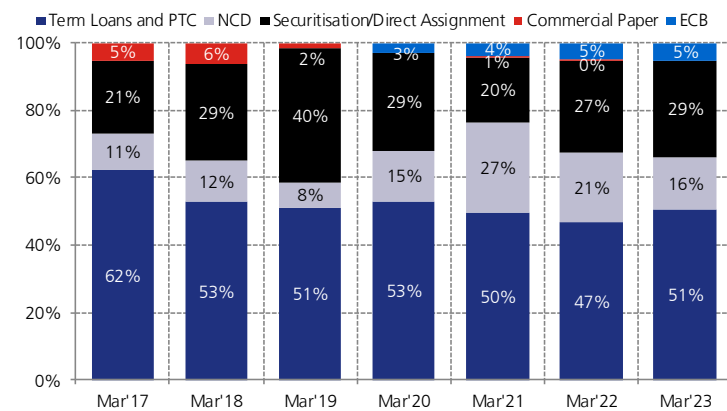
Exhibit 28. SCNL: Credit costs have peaked out in FY23; expected to moderate going ahead

Source: Company, JM Financial

Liabilities on the mend

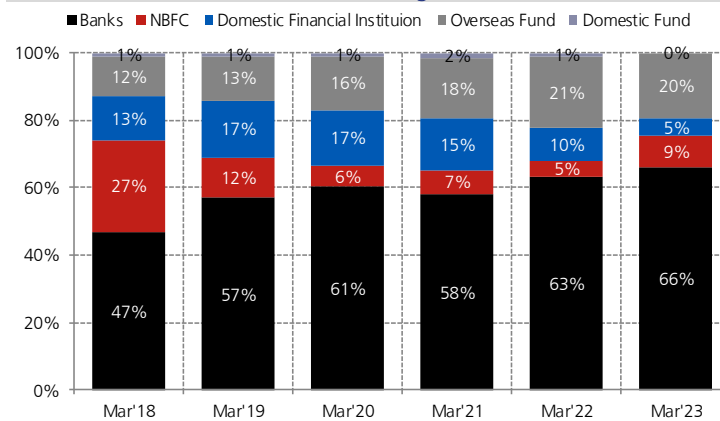
Over the years, SCNL has been gradually moving towards a well-diversified liability profile with a view to minimizing costs of borrowings and prudent asset liability management. SCNL benefits from a large and diversified mix of lenders which has increased over the years and included 65 active lenders as of Mar'23, comprising a range of public banks, private banks, NBFCs, domestic financial institutions and overseas funds.

Exhibit 29. SCNL: Borrowing source-wise trend



Source: Company, JM Financial

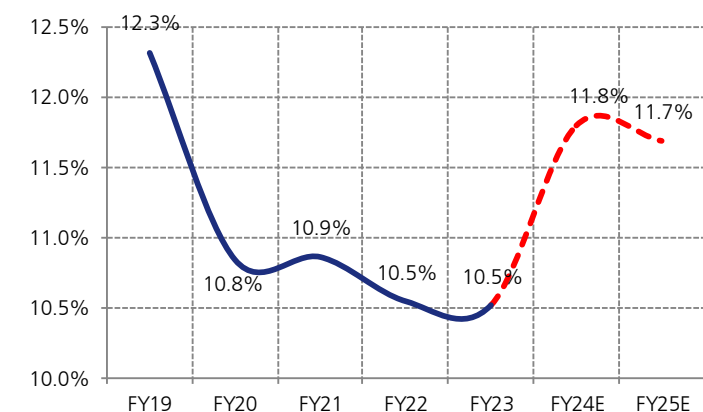
Exhibit 30. SCNL: Lender-wise borrowing trend



Source: Company, JM Financial

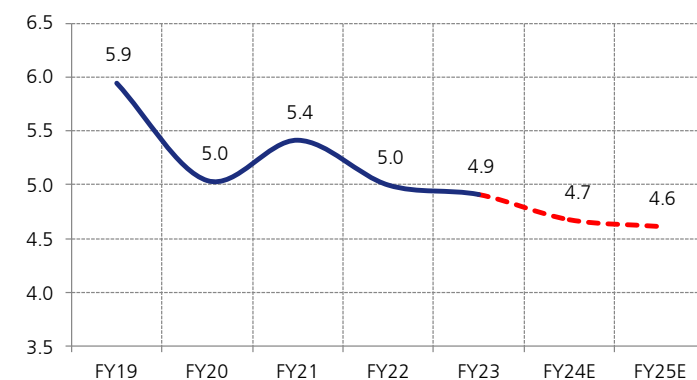
While we expect the borrowing cost to inch up in FY24E, as the impact of increased repo rates start to reflect on the cost side. With the conversion of warrant in FY24 net worth for SCNL is expected to be further augmented by INR c.1.2bn, which in turn should further reduce the gearing for the company. Thus, there are positive risks to our borrowing cost estimates, given the liability profile for SCNL is on a mend. ICRA has recently revised the credit rating outlook for SCNL from 'Negative' to 'Stable' which also highlights the improvement in the key fundamentals of the company. The current rating for the company is A- (stable)/ A1 which can see an upward movement as per ICRA – "if the company is able to grow its scale of operations and improve its profitability indicators (with RoMA of more than 2.5%) and asset quality indicators while maintaining a prudent capitalisation profile on a consistent basis."

Exhibit 31. SCNL: Trend in borrowing costs

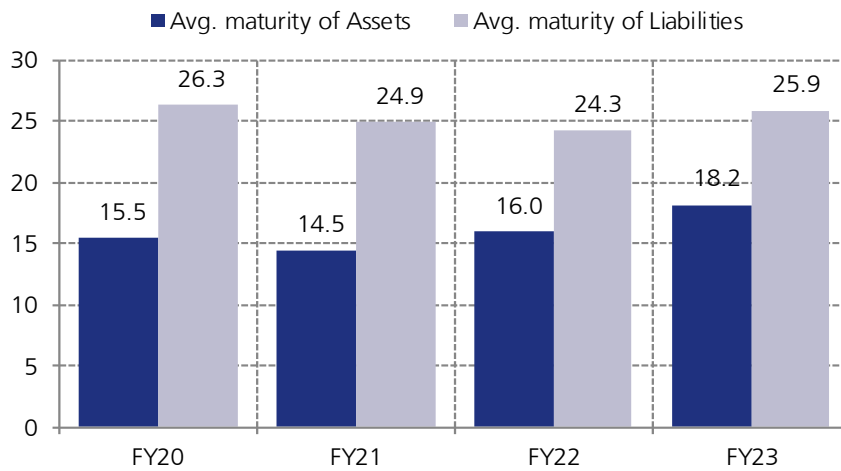


Source: Company, JM Financial

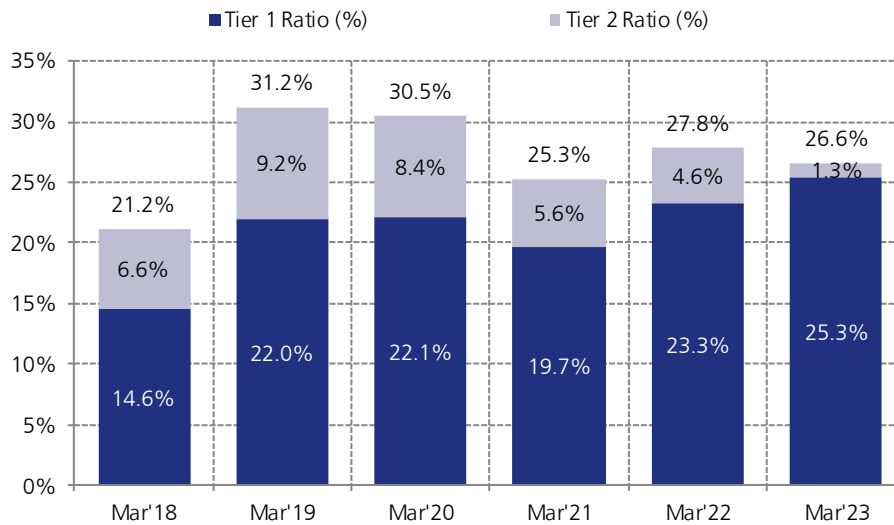
Exhibit 32. SCNL: Gearing expected to come down – driven by expected capital raise in FY24E



Source: Company, JM Financial

Exhibit 33. SCNL: Positive ALM mismatch (in months) continue

Source: Company, JM Financial

Exhibit 34. SCNL: Comfortable capital ratios to be further augmented by expected capital raise

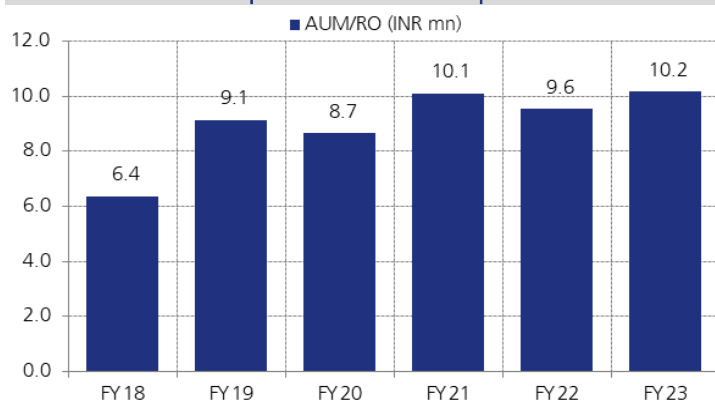
Source: Company, JM Financial

Opex trajectory to see moderation driven by efficiency improvement

After seeing a rationalisation in branch count during Covid-19 lockdown, Satin has once again started on a branch expansion strategy with a total network of 1,287 branches spread across 24 states and 405 districts as of Mar'23. Management has indicated that they plan to add 50-60 branches per year in the near to medium term, as SCNLs is focused on a more sustainable growth trajectory with equal focus on cost efficiency and asset quality. Similarly, even the number of employees and loan officers has seen a decline to 11,131 and 7,499 resp. as of Mar'23 (vs 13,005 and 8,152 resp. as of Mar'20). However, during Covid-19 phase top-line for Satin was impacted driven by slower AUM and disbursements further accentuated by interest reversals, while the moderation in opex was not to the same extent. Thus, cost-to-income was adversely impacted in FY21 and 22 (63.4% and 71.4% resp), while cost-to-assets ratio was better at 6.8% each.

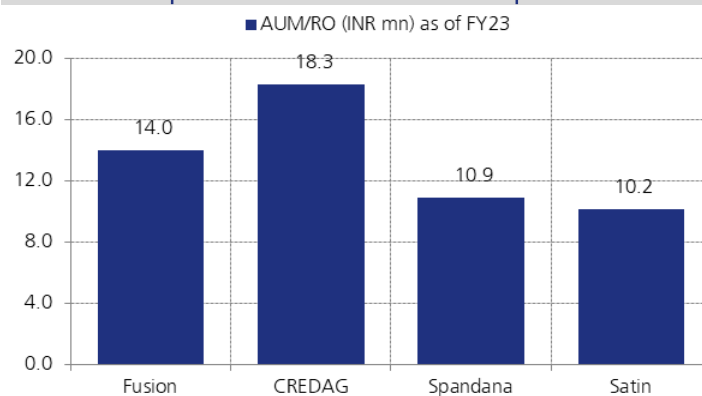
If we were to compare basis productivity metrics, Satin is decently placed when compared to its peers and can see the benefit of increased productivity on opex ratios. Below exhibits summarises the same.

Exhibit 35. SCNL: AUM per loan officer has improved



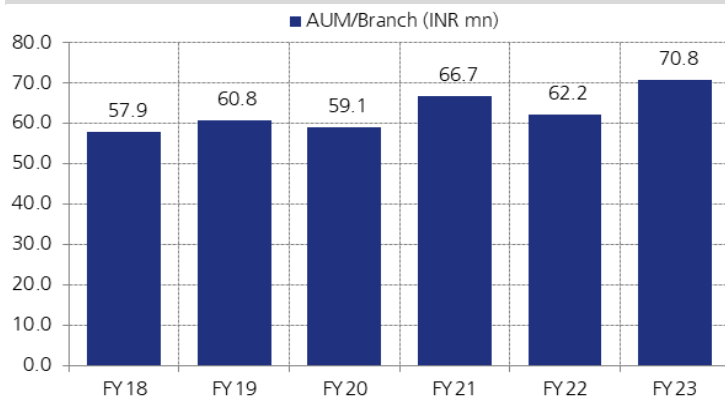
Source: Company, JM Financial

Exhibit 36. Comparison of AUM/loan officer with peers



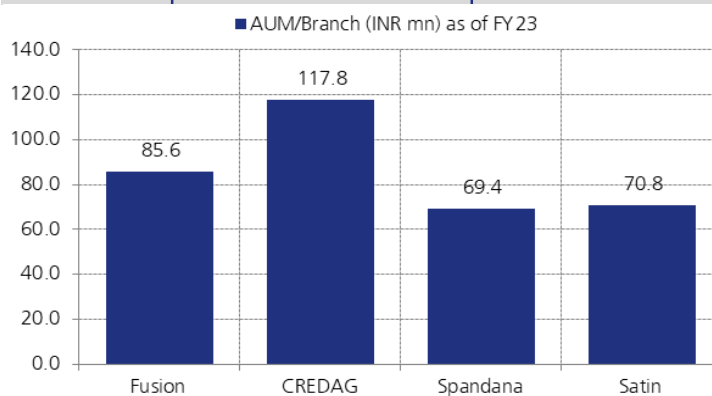
Source: Company, JM Financial

Exhibit 37. SCNL: AUM/Branch stands at INR 79.4mn as of 1HFY23

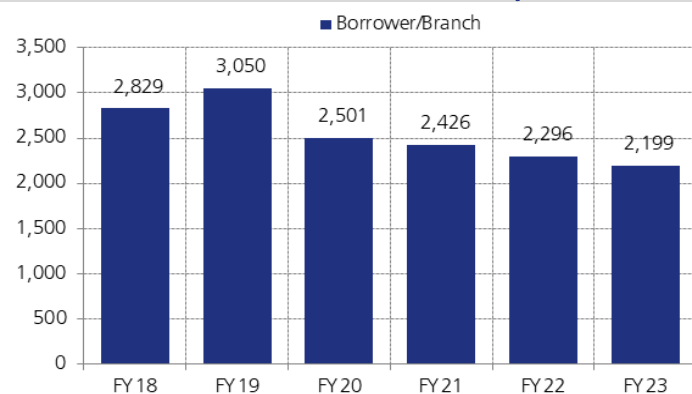


Source: Company, JM Financial

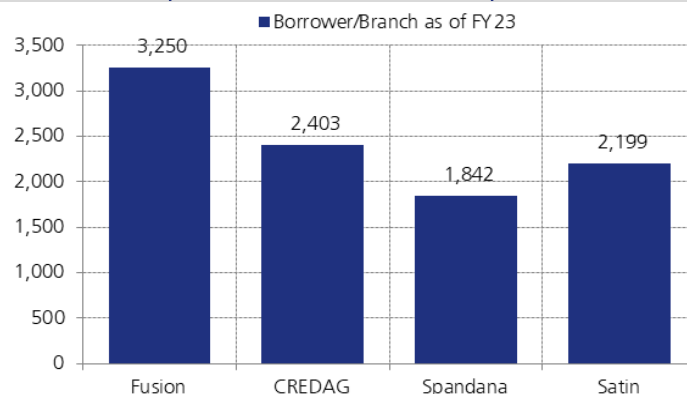
Exhibit 38. Comparison of AUM/Branch with peers



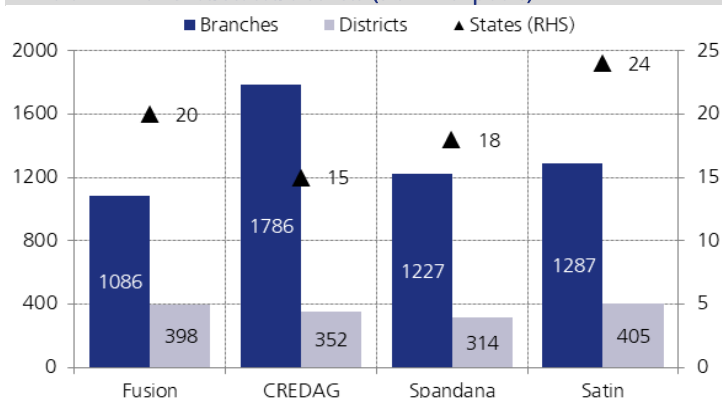
Source: Company, JM Financial

Exhibit 39. SCNL: Borrower/Branch trend over the years

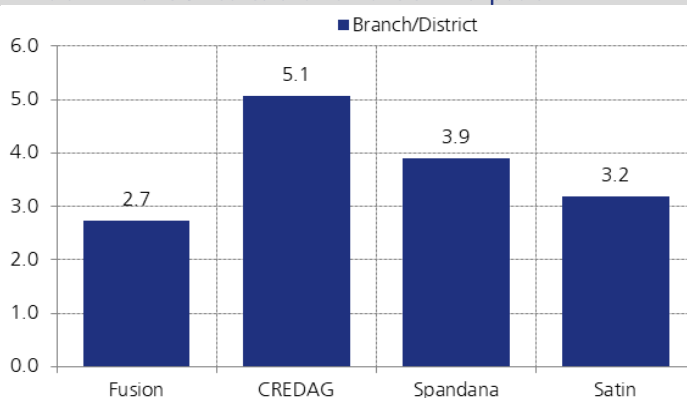
Source: Company, JM Financial

Exhibit 40. Comparison of Borrower/Branch vs. peers

Source: Company, JM Financial

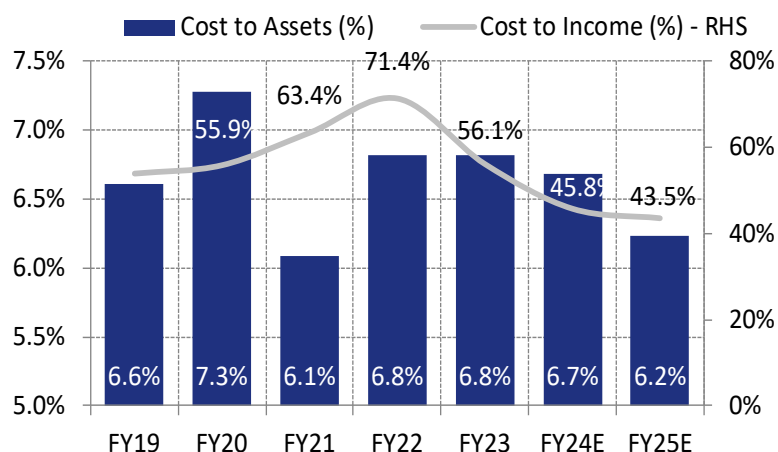
Exhibit 41. Branches/states/districts (SCNL vs. peers)

Source: Company, JM Financial, as of FY23

Exhibit 42. Branch/District is lower for SCNL vs. peers

Source: Company, JM Financial, as of FY23

We believe as Satin increases its loan portfolio and expand operations; it is expected to derive benefits from economies of scale, which will assist in optimizing operating expenses. Further, it also continues to invest in technology platform and technology-enabled operating procedures to increase operational and management efficiencies. We expect cost/assets and cost/income to improve to 6.2%/43.5% in FY25E vs. 6.8%/56.1% in FY23.

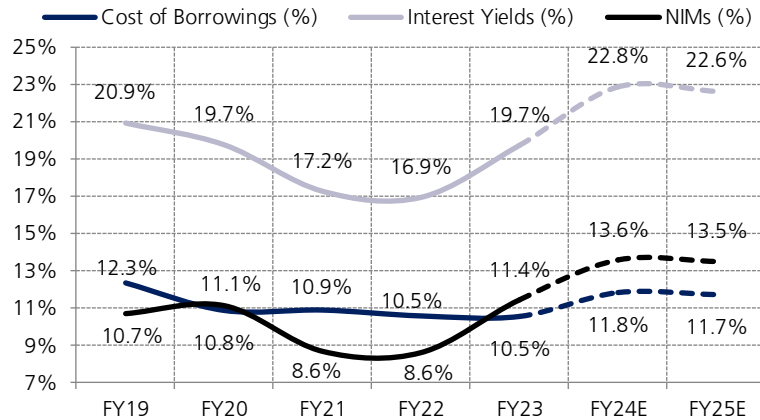
Exhibit 43. SCNL: Trend in Cost ratios

Source: Company, JM Financial

Return ratios on an improving trajectory driven by margin expansion, opex moderation and lower credit costs

While SCNL should see an upward repricing on the cost of borrowings side, the benefits on the yield repricing side should far outweigh the increase resulting in an expansion in NIMs for SCNL as shown below. Further, Satin's NIMs are also seeing the benefit of new RBI regulations for micro-finance players wherein the margin cap has been lifted and players are allowed to undertake risk-based pricing. We expect Satin's NIMs to expand to c.13.5% levels in FY24-25E given the positive drivers.

Exhibit 44. SCNL: Trend in cost of borrowings, yields and NIMs



Source: Company, JM Financial

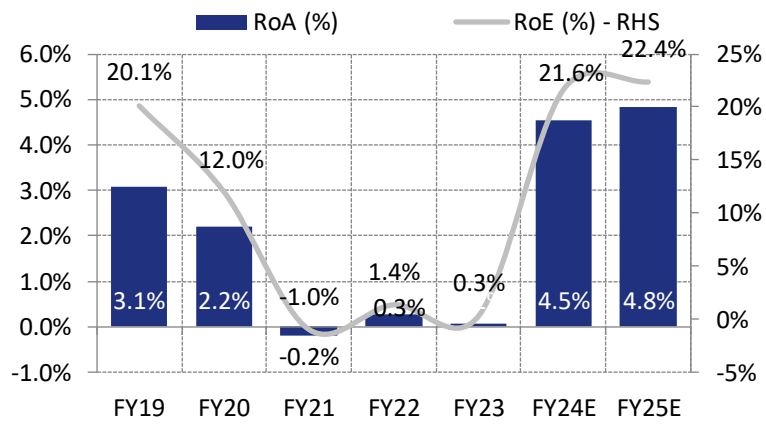
In FY21-23, the profitability was impacted by Covid-19 lockdowns resulting in heightened asset quality stress leading to elevated credit costs and lower AUM growth resulting in subdued RoA and RoE of less than 1.0%. However, we expect return metrics for SCNL to improve going ahead driven by a) NIMs expansion, b) credit costs normalisation and c) strong credit growth. We build in RoA and ROE of 4.5%/4.8% and 21.6%/22.4% resp. for 24E/25E.

Exhibit 45. SCNL: ROA tree

	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
NII / Assets (%)	10.3%	10.8%	8.4%	8.3%	10.9%	12.9%	12.8%
Other income / Assets (%)	1.9%	2.2%	1.2%	1.3%	1.2%	1.7%	1.5%
Total Income / Assets (%)	12.3%	13.0%	9.6%	9.6%	12.2%	14.6%	14.3%
Employee Cost to Assets (%)	4.7%	5.0%	4.4%	5.0%	5.0%	4.8%	4.5%
Other Cost to Assets (%)	1.9%	2.3%	1.7%	1.8%	1.8%	1.9%	1.8%
Cost to Assets (%)	6.6%	7.3%	6.1%	6.8%	6.8%	6.7%	6.2%
PPP / Assets (%)	5.6%	5.7%	3.5%	2.7%	5.3%	7.9%	8.1%
Provisions / Assets (%)	0.8%	2.7%	3.6%	2.3%	5.3%	1.9%	1.6%
PBT / Assets (%)	4.8%	3.0%	-0.1%	0.4%	0.1%	6.1%	6.4%
ROA (%)	3.1%	2.2%	-0.2%	0.3%	0.1%	4.5%	4.8%

Source: Company, JM Financial

Exhibit 46. SCNL: Trend in return ratios



Source: Company, JM Financial

Exhibit 47. SCNL: Satin vs peers Dupont

Du-pont Analysis (%) (as of FY23)	Fusion			CREDAG			Spandana			Satin		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Total Income / Assets (%)	13.9%	13.5%	12.9%	11.9%	12.8%	12.6%	11.8%	13.0%	12.5%	14.6%	14.3%	14.6%
Cost to Assets (%)	5.3%	5.1%	4.9%	4.2%	4.0%	3.7%	5.4%	5.6%	5.3%	6.7%	6.2%	6.7%
PPP / Assets (%)	8.6%	8.3%	8.0%	7.7%	8.8%	8.9%	6.5%	7.4%	7.2%	7.9%	8.1%	7.9%
Provisions / Assets (%)	2.4%	2.1%	1.9%	2.0%	1.4%	1.5%	6.2%	1.5%	1.7%	1.9%	1.6%	1.9%
PBT / Assets (%)	6.1%	6.2%	6.1%	5.6%	7.4%	7.4%	0.2%	5.9%	5.6%	6.1%	6.4%	6.1%
ROA (%)	4.6%	4.6%	4.6%	4.2%	5.5%	5.5%	0.2%	4.4%	4.2%	4.5%	4.8%	4.5%
Leverage	4.6	4.5	5.0	4.2	4.3	4.3	2.6	3.3	3.9	4.8	4.6	4.8
ROE (%)	21.2%	20.9%	22.6%	17.8%	23.7%	23.8%	0.4%	14.6%	16.2%	21.6%	22.4%	21.6%

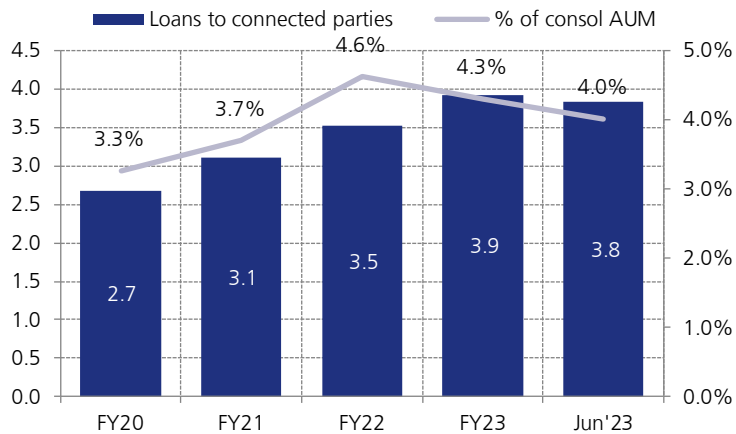
Source: Company, JM Financial

Governance worries reducing

Satin historically had a sizeable share of wholesale/big-ticket assets (these were non-qualifying assets which were permissible upto 15% of total assets). This lending was relatively chunky in nature and conducted at 16-18% lending rates. While Satin did not suffer any asset quality issues in this portfolio, given the large ticket sizes and non-core nature of this product, it had raised concerns for the broader investor community.

The share of these assets has gradually been coming off (4.0% loans in Jun'23 vs 4.6% in Mar'22) and is likely to run-off entirely in the medium-term (INR80-100m quarterly run down). The management has consciously decided to discontinue this product/practice and no fresh disbursement is being done. We believe this should assuage concerns and aid gradual improvement in investor comfort for this name.

Exhibit 48. SCNL: Loans to connected parties is coming down



Source: Company, JM Financial; INR bn

Experienced management team

Satin's senior management team comprises experts and professionals heading various functions with multiple years of leadership experience in their respective fields. Satin's key management personnel has a diverse mix of domain expertise in banking, financial services and insurance and large corporates, as well as experience in building scale and managing various business cycles. Further, with a view to augment the key management and risk function, Satin has recently inducted a new CRO from SBI. Further, Mr Bhuvnesh Khanna has recently joined as the President of the MSME function.

Exhibit 49. SCNL: Key management personnel

Name	Designation	Description
Mr. HP Singh	Chairman & Managing Director	A law graduate and a fellow of The Institute of Chartered Accountants of India since 1984, Mr. HP Singh has over three decades of microfinance experience to his credit and is responsible for pioneering the unique concept of daily collection of repayments of loans. Aside from being an expert in lending, particularly in the microfinance field, Mr. Singh also has a wealth of experience across auditing, accounts, project financing, advisory services and company law matters. Mr. Singh is a part of industry forums like Sa-Dhan, where he serves as Chairman and the Federation of Indian Chambers of Commerce and Industry (FICCI), where he lends his expertise as a Banking and Financial Institution Committee member.
Mr. Jugal Kataria	Group Controller	Mr. Jugal Kataria is a graduate from Shree Ram College of Commerce and is a Cost Accountant, Chartered Accountant and Company Secretary with approx. 31 years of relevant experience. He has participated in an 'Internal Auditors Training Course' for ISO 9000 and 'Harvard Business School Action Program on Strategic Leadership for Microfinance'. He attended leadership program organized by Women's World Banking at Wharton Business School, University of Pennsylvania in 2011. Mr. Kataria worked with Apollo Tyres Limited and Berger Paints (India) Limited before joining SCNL in 2000.
Mr. Rakesh Sachdeva	Chief Financial Officer	Mr. Sachdeva has more than 30 years of experience across various domains of Finance Management, Business Operations, Human Resources, Project Management; Strategic Alliances and Contract Management. He is a versatile manager and his area of work involved fund management, administration and project management. He is a Fellow member of the Institute of Chartered Accountants of India, and worked with Apollo Tyres Ltd, Berger Group, Arcotech Group at various designations. Mr. Sachdeva is associated with Satin Creditcare Network Limited as Board member from April, 1999 to November, 2020. He has served on various committees (including Audit Committee) of the Board of Satin Creditcare Network Limited as Chairman and Member.
Mr. Bhuvnesh Khanna	President – MSME – Satin Finserv Limited	Mr. Bhuvnesh Khanna is a distinguished graduate from St. Xavier's College, Kolkata and holds the prestigious Chartered Accountant degree from the 1994 batch. Throughout his illustrious career, Mr. Khanna has had the privilege of working with leading brands in the banking industry including Kotak Mahindra, HDFC Bank, Deutsche Bank and HSBC. His most recent role was with HSBC where he held pivotal positions across multiple markets such as India, Hong Kong, Shanghai, Bangladesh and London.
Mr. Anil Gupta	Executive Vice President	With an MBA in Marketing Management from Leeds Business School, Leeds University, UK, and a B.Com (Hons) degree from Shri Ram College of Commerce, Delhi University, Mr. Gupta has spent over 40 years in the Sales, Marketing and P&L Management across various industries. In addition, he has attended courses at IIM Ahmedabad and IIM Kolkata and a Strategic Business Management course from Duke University, North Carolina, USA. Mr. Gupta joined SCNL, in February 2020, as Business Head – Products and Insurance. Prior to Satin, he was working with Shriram Refrigeration, Honda Power Products, Reliance Infocomm, Usha International, Idea Cellular (Aditya Birla Group), and Aircel. He has successfully spearheaded the launch of telecom services in Delhi, Haryana, UP, Rajasthan & HP besides leading them to be profitable ventures. He has successfully turned around the loss making businesses into profitable ones and ensured the long-term benefits to the Organization of the same. He has had vast exposure in Sales, Marketing, Operations and handling difficult situations and turning them into profitable ventures for the Company.
Mr. Subir Roy Chowdhury	Chief Human Resource Officer (CHRO)	Mr. Subir is an alumnus of INSEAD (Advanced Management Program) and PGDHRM from IISWBM – Kolkata with B.Com (Hons) from Kolkata University. He has a versatile experience of 23 years in HR function. He has joined Satin in April 2016 as Chief Human Resource Officer. Before joining SCNL, he worked with Magma Fincorp Ltd as Head – Business & Corporate HR where he has initiated the competence framework, Talent Management, Succession Planning, PMS & Total Rewards. He has earlier worked with ICICI Securities Ltd, ICICI Prudential Life Insurance Company Ltd, Magma Leasing Ltd, Wacker Metroark Chemicals Ltd and Kotak Securities.
Mr. Amarjit Singh	Chief Audit Officer	Mr. Amarjit Singh holds an eminent MBA degree in Finance from the prestigious FMS-Delhi and a B.Com from SGTB Khalsa College, Delhi. He is a seasoned Banker with more than 32 years of expertise in Operations and Retail Banking. A strategic and enthusiastic business leader having extensive knowledge spread across the horizons of portfolio management, risk management, cross-selling, branch banking operations, branch and ATM expansion, business development and sales management etc, he is also a motivational speaker. He has worked with Allahabad Bank, Axis Bank, Janalakshmi Financial Services and Jana Small Finance Bank. He has been associated in multiple leadership roles like Branch Head, Zonal Retail Liability Head, Circle Head-Punjab, Head Business Operations and Distribution Channels for Retail Asset & Credit Card Sales. His former assignment was with Capital Trust Ltd as its Chief Operating Officer.
Mr. K Thangaraju	Chief Operating Officer	Mr. Thangaraju has done M.Com from Bharathidasan University, a financial services professional having over 22 years standing with varied experience in diverse conditions like setting up the retail distribution, Sales, Recovery, Credit for NBFC, Modern Bank and NBFC Micro Finance. He possess strong command in distribution network and worked for companies like Hindustan Financial Management Limited, Kotak Mahindra Bank (erstwhile ING Vysya Bank Limited), Fullerton India Credit Company Limited and his last assignment was with Jana Small Finance Bank.
Ms. Aditi Singh	Head - Strategy	Ms. Singh has more than 14 years of experience in the Financial services industry across several functions. At Satin, her area of work involves Strategic inputs for Management and managing key stakeholders, managing the existing as well as prospective shareholders, sectoral research coverage, integrated annual reports, and all the roles and responsibilities related to Investor Relations. Additionally, she also leads the PR and Communication and CSR and Social Performance Management in which she works on the right positioning of the company. Prior to Satin, she has worked with CG Corp Global as Head M&A heading projects in Middle East, Africa, North America and South East Asia, UV Capital Pvt. Ltd, and IFCI Venture Capital Funds, where she attained diversified experience and led to her 360-degree understanding of the finance and business vertical. She is a gold medalist in Economics (Hons.) from Banasthali Vidyapith and has done post-graduation in Management of Business Finance from the Indian Institute of Finance, Delhi.
Mr. Anil Kwatra	Head-Operational Excellence & Innovation	With a PGPM in Marketing and a B.COM from MD University, Rohtak, Mr. Kwatra has spent 14+ years in the Microfinance and Life insurance space. He holds expertise in setting up business and distribution models. Prior to joining Satin in May 2017, he has worked with organisations like Bharat Financial Inclusion Ltd, Max life Insurance, Indiabulls Financial Services and ICICI Prudential Life Insurance playing key roles in Sales, Training & Operations verticals. Before taking the charge as Head-Operational Excellence & Innovation, he had served as a Business Head for the states of Punjab, Haryana and Rajasthan at Satin.
Mr. Sunil Yadav	Head – Information Technology	With a Masters in Computer Science from Guru Jambheshwar University, Hisar, Mr. Sunil Yadav has spent over 12 years in the Banking and Finance industry and across its various functions. He also holds a certificate in Artificial Intelligence from IIT Roorkee. He joined SATIN in 2016 as Solution Architect and, currently as Head of Technology, he has been spearheading the digital transformation and has been instrumental in building a self-sustaining, high-calibre technology team responsible for building in-house futuristic, state of the art solutions in line with the vision of the organization. Prior to this, he was working with Emvantage Payment Private Limited (Acquired by Amazon Payments) & Signet Payments (Acquired by IRCTC), responsible for leading the architecture of various technology solutions catering to the payment gateway and Fintech ecosystem.
Mr. Dhiraj Jha	Chief Risk Officer	Mr. Dhiraj Jha is a Financial Risk Professional having over 17 years of experience with a varied skill base in the field of Portfolio Management, Risk Analytics and Management, Project Management, Risk Assessment/Quantification and Business Process Re-engineering. At Satin, he spearheads the Risk Management vertical for the company. Prior to Satin, he has worked with Allahabad Bank and State Bank of India. He possesses a strong inclination toward automation in the Financial Industry using modern techniques/tools of Data Science. His educational background includes a Bachelor in Computer Application, Post Graduate in Economics and PG Diploma in Financial Advising. He is also a Certificated Associate of the Indian Institute of Bankers (CAIIB) and Financial Risk Management (FRM) certificate holder of GARP-USA.
Mr. Vikas Gupta	Company Secretary & Compliance Officer	A law graduate and fellow of Imperial College, London, Mr. Gupta has more than 14 years of experience as a Company Secretary and is an Associate Member of the Institute of Company Secretaries of India. Prior to joining Satin, he worked with Hero Group. He has extensive experience in secretarial and compliance functions, including private equity, rights issues, mergers, and acquisitions. He has worked with brands like Havells India Ltd.

Source: Company, JM Financial

Valuations – Current valuations underappreciate cyclical benefits and structural improvements

Satin is well-placed to benefit from cyclical tailwinds in the sector as it exits turbulence caused by Covid-19 over the past couple of years and driven by its own silent transformation. Strategic changes at key leadership positions, strengthening of the governance standards and meaningful process improvements should ensure continued delivery on growth and profitability. This should enable Satin to meaningfully reduce the “risk perception” of the business and witness meaningful valuation upsides. Current valuations of 0.8x FY25E P/BV and 3.8x FY25E P/E do not do justice to an entity which is set to deliver avg RoAs and RoEs of 4.7% and 22.0% over FY24/FY25E.

We value Satin on a two-stage Gordon growth model. Our assumptions are as follows:

Exhibit 50. Valuation Summary

Initial no of years	10
Growth rate for the first 10 years (%)	13.2%
Pay-out ratio for the first 10 years (%)	20%
Perpetual growth rate (%)	3.6%
Perpetual pay-out ratio (%)	78.0%
K1	1.8
K2	5.5
Mar'25E BVPS (INR)	267
Fair P / BV (x)	1.20x
Fair Value (INR)	320

Source: Company, JM Financial

Based on the above calculations, we arrive at our intrinsic target multiple of 1.20x FY25E P/BV resulting in a TP of INR 320.

Key Risks

- **Inherent risks associated with microfinance business:** In the past, MFIs have demonstrated vulnerability to force majeure events, and regulatory and legislative risks, which adversely impacted their business models by impairing growth, asset quality, profitability and solvency. Furthermore, since the business of these institutions entails lending to the poor and downtrodden sections of the society, MFIs will remain exposed to socially sensitive factors, especially those related to interest rates and, consequently, to tighter regulations and legislation.
- **Political risk:** While NBFC-MFIs are currently regulated by the RBI, the respective governments of the states where Satin operates may pass laws either suo moto, or in response to any legal action, which would impact the business of NBFC-MFIs. The micro-lending business is vulnerable to changes in laws/political instigation that may affect customer discipline and increase delinquencies (e.g., loan waivers). This has the potential to significantly impair business activity.
- **Resurgence of Covid:** Increased focus on collections by strengthening the collections infrastructure and gradual opening up of the economy has helped MFIs to significantly improve their collections, with collections efficiency reaching pre-Covid levels. However, the possibility of resurgence of Covid cases and any future lockdown remains a key risk for the performance of Satin and our estimates. Thus, it remains at a risk of seeing higher NPAs due to possible deterioration in the credit quality of its customers.
- **Competitive intensity:** Satin faces most significant organized competition from other MFIs, banks and state-sponsored social programs in India. Traditional commercial banks as well as regional and cooperative banks may continue to increase their participation in microfinance. Further, most small finance banks (SFBs) are focused on low and middle income individuals and micro, small and medium enterprises. Further, some commercial banks are also beginning to directly compete with for-profit MFIs, including through the business correspondent operating model, for lower income segment customers in certain geographies. In addition, as competition amongst microfinance players increases, borrowers may take more than one loan from different microfinance players, which may adversely affect Satin's asset quality or the asset quality of the industry as a whole.

Financial Tables (Standalone)

Income Statement (INR mn)					
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Interest Income (NII)	6,412	6,487	8,479	11,444	14,198
Non Interest Income	949	1,017	943	1,513	1,640
Total Income	7,361	7,504	9,423	12,957	15,839
Operating Expenses	4,669	5,355	5,290	5,928	6,896
Pre-provisioning Profits	2,693	2,149	4,133	7,029	8,943
Loan-Loss Provisions	2,790	1,807	4,081	1,655	1,816
Others Provisions	0	0	0	0	0
Total Provisions	2,790	1,807	4,081	1,655	1,816
PBT	-98	342	52	5,374	7,127
Tax	42	135	4	1,354	1,796
PAT (Pre-Extra ordinaries)	-140	207	48	4,020	5,331
Extra ordinaries (Net of Tax)	0	0	0	0	0
Reported Profits	-140	207	48	4,020	5,331
Dividend	0	0	0	0	0
Retained Profits	-140	207	48	4,020	5,331

Source: Company, JM Financial

Balance Sheet (INR mn)					
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Equity Capital	665	746	848	992	992
Reserves & Surplus	14,197	14,573	15,141	20,187	25,518
Stock option outstanding	0	0	0	0	0
Borrowed Funds	61,811	57,435	59,112	73,891	90,885
Deferred tax liabilities	0	0	0	0	0
Preference Shares	0	0	0	0	0
Current Liabilities & Provisions	3,774	3,799	3,395	3,961	4,891
Total Liabilities	80,447	76,553	78,496	99,031	1,22,287
Net Advances	58,112	53,084	63,289	79,192	98,720
Investments	6	486	618	792	987
Cash & Bank Balances	19,583	20,019	11,144	13,859	17,276
Loans and Advances	0	0	0	0	0
Other Current Assets	875	825	838	2,006	1,478
Fixed Assets	1,349	1,260	1,290	1,519	1,772
Miscellaneous Expenditure	0	0	0	0	0
Deferred Tax Assets	522	878	1,319	1,663	2,054
Total Assets	80,447	76,553	78,496	99,031	1,22,287

Source: Company, JM Financial

Key Ratios					
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Growth (YoY) (%)					
Borrowed funds	11.5%	-7.1%	2.9%	25.0%	23.0%
Advances	17.6%	-8.7%	19.2%	25.1%	24.7%
Total Assets	10.2%	-4.8%	2.5%	26.2%	23.5%
NII	-15.3%	1.2%	30.7%	35.0%	24.1%
Non-interest Income	-39.7%	7.2%	-7.3%	60.4%	8.4%
Operating Expenses	-8.6%	14.7%	-1.2%	12.1%	16.3%
Operating Profits	-33.3%	-20.2%	92.3%	70.1%	27.2%
Core Operating profit	0.0%	0.0%	0.0%	0.0%	0.0%
Provisions	45.5%	-35.2%	125.8%	-59.5%	9.8%
Reported PAT	-109.0%	-248.0%	-76.7%	8,252.1%	32.6%
Yields / Margins (%)					
Interest Spread	6.38%	6.37%	9.19%	11.04%	10.92%
NIM	8.64%	8.58%	11.41%	13.55%	13.47%
Profitability (%)					
ROA	-0.18%	0.26%	0.06%	4.53%	4.82%
ROE	-1.0%	1.4%	0.3%	21.6%	22.4%
Cost to Income	63.4%	71.4%	56.1%	45.8%	43.5%
Asset quality (%)					
Gross NPA	8.30%	8.13%	3.17%	2.45%	2.44%
LLP	3.37%	2.26%	4.88%	1.62%	1.43%
Capital Adequacy (%)					
Tier I	19.73%	23.25%	25.34%	24.00%	24.89%
CAR	25.28%	27.84%	26.62%	25.14%	25.91%

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
NII / Assets	8.36%	8.26%	10.94%	12.89%	12.83%
Other Income / Assets	1.24%	1.30%	1.22%	1.70%	1.48%
Total Income / Assets	9.59%	9.56%	12.15%	14.60%	14.31%
Cost / Assets	6.09%	6.82%	6.82%	6.68%	6.23%
PPP / Assets	3.51%	2.74%	5.33%	7.92%	8.08%
Provisions / Assets	3.64%	2.30%	5.26%	1.86%	1.64%
PBT / Assets	-0.13%	0.44%	0.07%	6.05%	6.44%
Tax rate	-43.3%	39.4%	8.2%	25.2%	25.2%
ROA	-0.18%	0.26%	0.06%	4.53%	4.82%
Leverage	5.4	5.0	4.9	4.7	4.6
ROE	-1.0%	1.4%	0.3%	21.6%	22.4%

Source: Company, JM Financial

Valuations					
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Shares in Issue	66.5	74.6	84.8	99.2	99.2
EPS (INR)	-2.1	2.8	0.6	40.5	53.7
EPS (YoY) (%)	-107.0%	-231.9%	-79.5%	7,038.9%	32.6%
P/E (x)	-97.9	74.2	362.9	5.1	3.8
BV (INR)	224	205	189	213	267
BV (YoY) (%)	-20.2%	-8.1%	-8.2%	13.2%	25.2%
P/BV (x)	0.92	1.00	1.09	0.96	0.77
DPS (INR)	0.0	0.0	0.0	0.0	0.0
Div. yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company, JM Financial

APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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