Satin Creditcare - BUY

12 February 2024

Initiating coverage

Turning a corner

After a long hiatus during COVID, Satin is well on its path to grow at ~30% led by customer acquisition, geographical expansion, ATS growth and scale up of non-MFI segments (MSME and affordable HL). It has also made improvements in its underwriting and collections processes, is investing in tech and has made key leadership changes. Consequently, we expect Satin to sustain its FY24 performance and deliver ROAs/ROEs of 4.7%/21.5% by FY26 with EPS growth of 21% Cagr (FY24-26ii). Its valuations at 0.9x FY25 P/B are undemanding and are at ~40% discount to its peers. Initiate coverage with BUY and a TP of Rs350, implying 1.3x P/B multiple on FY25 book.

Strong loan growth with geographic diversification: After the pandemic period growth slump, Satin is back on the growth path with FY24 disbursements likely to be ~20% higher than pre-COVID peak (FY20). This has been aided by new customer acquisition and modest increase in ATS (5% Cagr since FY22). Satin has also reduced its geog. concentration (top 4 state concentration declining to 55% from 68% in FY18 and 96% districts having <1% concentration) and also forayed into new states (TN/KR). We expect Satin to sustain this momentum and expect it to grow at ~30% Cagr for FY24E-FY26E.

Superior AQ outcome during COVID; credit costs to normalize from FY24 lows: Satin demonstrated amongst the lowest cumulative credit costs of 10.5% (FY20-23) during COVID and its stage3+2 loans have halved to 4% (FY23) with post pandemic portfolio performing better than the sector. However, we expect its credit costs to normalize to 160bps over FY25/26 from lows of 120bps in FY24ii given rising MFI sector delinquencies in the northern states especially PB where Satin has 6.8% exposure. We also expect Satin's cost ratios to improve to 6.3% by FY26ii (-50bps) with growth resuming and tech spends moderating.

Initiate with BUY and TP of Rs 350: Satin's valuations at 0.9x FY25 P/B are undemanding for ROAs/ROEs of 4.7%/21.5% and are at ~40% discount to its MFI peers excluding CREDAG. Initiate coverage with BUY rating and a TP of Rs350, implying 1.3x P/B multiple on FY25 book. Risks: Event based risk, political risk, governance concerns.

Company update

CMP	**Rs253**
12-mth TP (Rs)	**350 (38%)**
Market cap (US$m)	**259**
Bloomberg	**SATIN IN**
Sector	**NBFC**

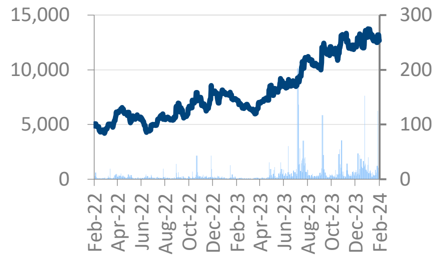
Price performance (%)

	1M	3M	1Y
Absolute (Rs)	-2.4	-2.6	76.0
Absolute (US$)	-2.3	-2.3	74.9
Rel.to Smallcap	-6.6	-22.0	13.7
Cagr (%)		**3 yrs**	**5 yrs**
EPS (Rs)		-72.2	

Shareholding pattern (%)

Promoters	36.1
Pledged (as % of promoter share)	0.0
FII	9.6
DII	8.2
52Wk High/Low (Rs)	275/119
Shares o/s (m)	110
Daily volume (US$ m)	1.4
Dividend yield FY25ii (%)	0.0
Free float (%)	64.0

Stock performance



Financial summary (Rsm)

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
NII - excl. assignment income	5,970.2	6,322.4	9,720.8	12,881.4	16,232.3
PPOP	2,149.2	4,133.2	6,989.2	9,743.7	12,461.1
Reported PAT	**207.0**	**48.1**	**4,286.5**	**5,650.8**	**7,214.6**
EPS (Rs)	2.8	0.6	38.8	51.2	65.3
Growth (%)	NA	(79.5)	6736.1	31.8	27.7
IIFL vs consensus (%)			(0.8)	(2.8)	(6.2)
PER (x)	91.2	446.1	6.5	4.9	3.9
Book value (Rs)	212	192	217	268	333
PB (x)	**1.2**	**1.3**	**1.2**	**0.9**	**0.8**
CAR (%)	25.3	27.8	26.6	30.9	31.0
ROA (%)	0.3	0.1	4.6	4.6	4.7
ROE (%)	**1.3**	**0.3**	**21.3**	**21.1**	**21.7**

Source: Company, IIFL Research. Priced as on 09 February 2024

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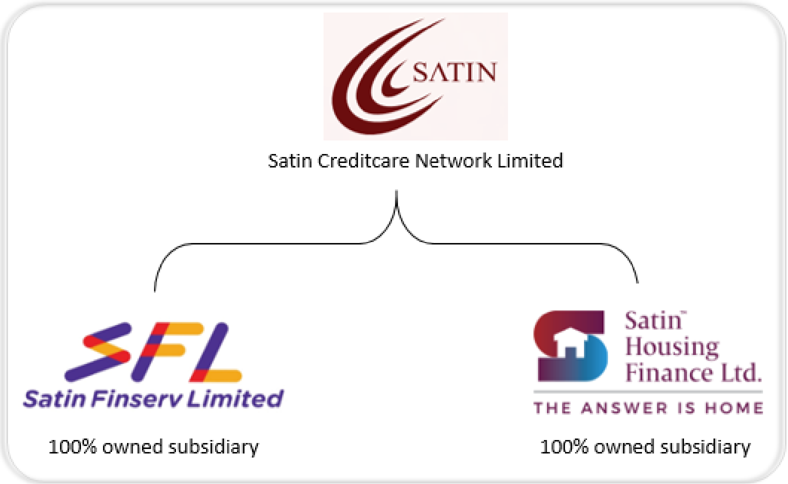
Satin Creditcare: Company overview

Satin Creditcare Network Limited (SCNL) is a NBFC-MFI providing financial services to rural India having AUM of Rs110bn. SCNL converted to NBFC-MFI in 2013 and its product suite includes Income Generating Loans (IGL), Long Term Loans (LTL), Social impact financing through WASH (Water and Sanitation) loans, MSME loans and Housing finance. Initially rooted in North India as a microfinance entity, SCNL has successfully expanded to become a Pan-India player (presence in 24 states/UTs) with 3.4mn active customers, 1386 branches and reaching 419 districts as of 9MFY24.

SCNL's MFI business (89% of AUM) is based on the Joint Liability Group model (JLG Model) for extending collateral-free microcredit facilities to the economically disadvantaged women in rural and semi-urban areas. A Joint Liability Group (JLG) comprises individuals joining forces to secure a loan from a bank or financial institution. Through this collective approach, members provide a mutual guarantee to the lender.

Figure 1: SCNL | Corporate structure



Source: Company, IIFL Research

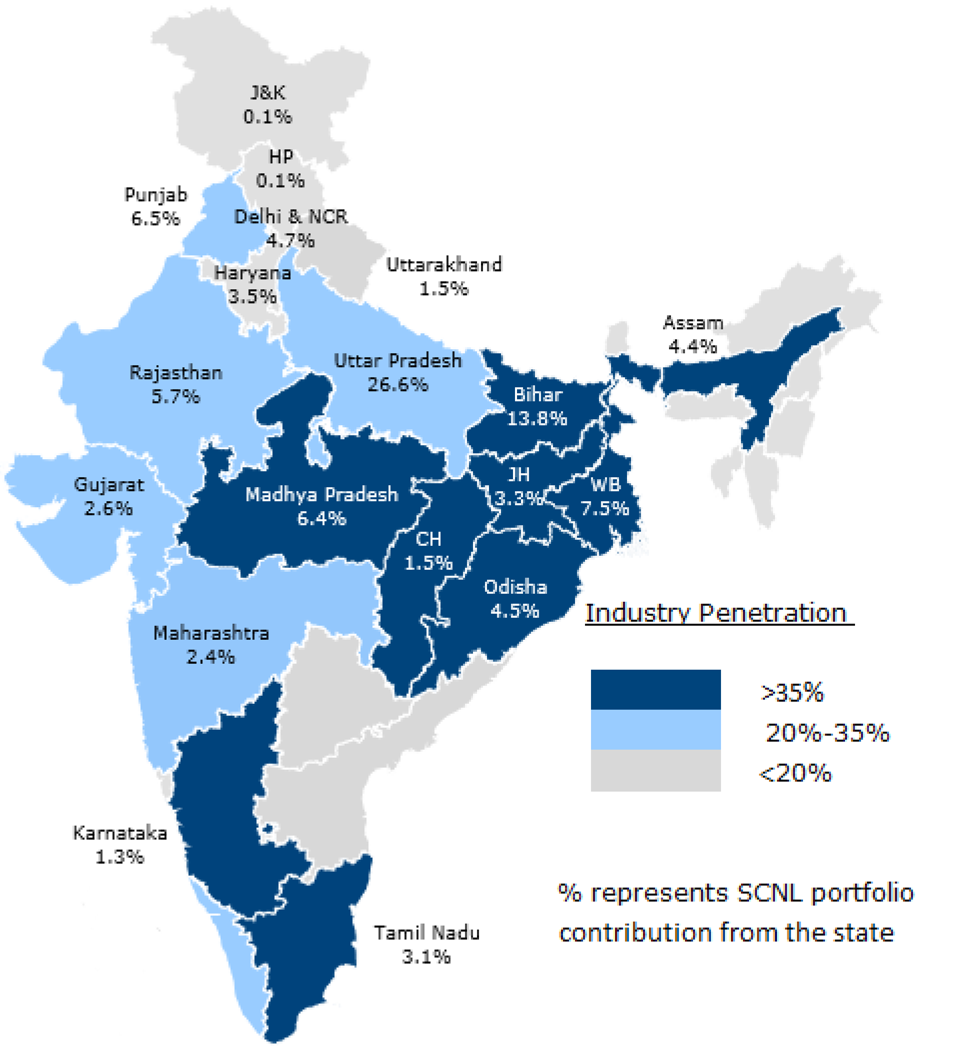
Figure 2: SCNL | Product suite

Source: Company, IIFL Research; Note: IGL - long term ticket size: Rs31,000 – 80,000, ATS for 9MFY24

SCNL operates 2 wholly-owned subsidiaries: Satin Finserv Limited, providing secured MSME loans, and Satin Housing Finance Limited, offering affordable housing finance solutions targeted at low and middle-income groups. SCNL's business correspondent (BC) subsidiary Taraashna Financial Services Limited was merged with Satin Finserv Limited effective March 2023 with SCNL running down the BC Book to adhere to principal business criteria.

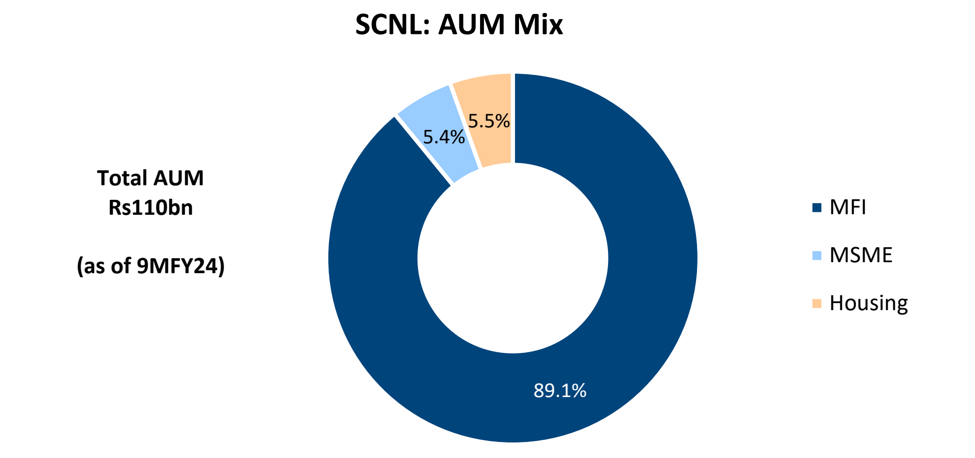
SCNL had a total loan book of Rs110bn as of 9MFY24, having MFI/MSME/Housing mix of 89.1%/5.4%/5.5% respectively. Top 5 states accounted for 60% of the portfolio (UP/Bihar/WB/MP/Punjab - 26.3%/13.5%/8.0%/6.8%/5.4%) whereas the next 5 states accounted for ~24% as of 9MFY24.

Figure 3:SCNL portfolio concentration v/s industry penetration



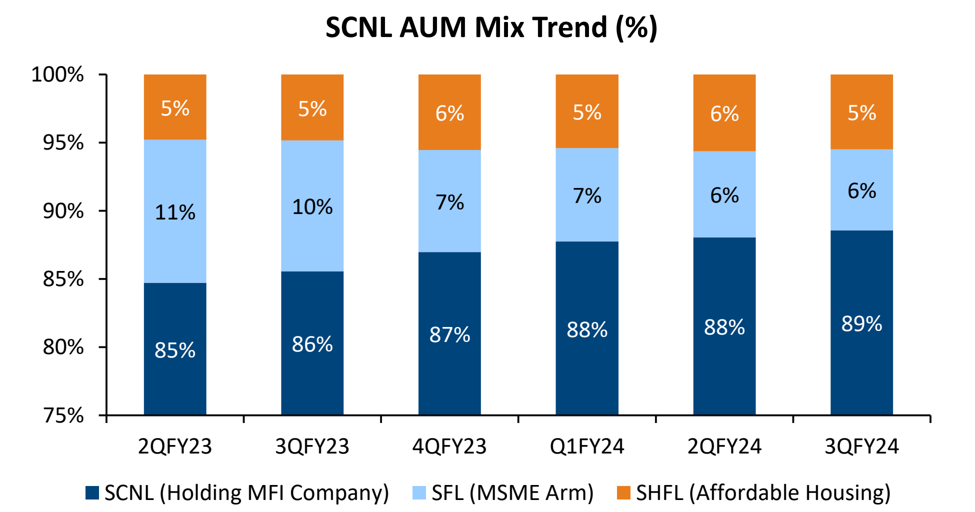
Source: Company, MFIN, IIFL Research; SCNL portfolio penetration as of 1HFY24

Figure 4:~89% of AUM consists of MFI business



Source: Company, IIFL Research

Figure 5:Though SCNL is looking to diversify, MFI is by far the largest part of the AUM mix

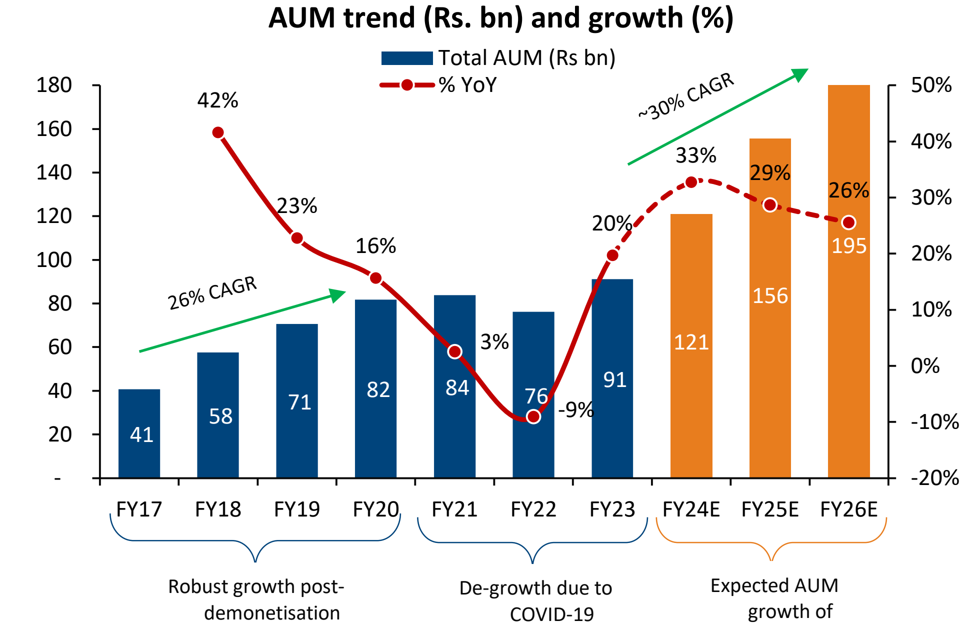


Source: Company, IIFL Research; Taraashna Fin. Serv. merged with Satin Finserv effective Mar'23; AUM for both have been added for previous quarters

Strong loan growth with decreasing geographic concentration

Post-demonetisation (FY17-20), SCNL demonstrated a robust AUM CAGR of ~26% to Rs81bn. However, the growth significantly decelerated and the AUM fell to Rs76bn (FY22) on account of the COVID pandemic where SCNL materially scaled down disbursements to prioritize collections over growth. SCNL's AUM growth has recovered (~40% YoY growth for 3QFY24) with FY24ii disbursements set to cross pre-COVID levels of Rs90bn (FY20). Strong disbursement growth has been underpinned by new customer acquisitions, geographic expansion and modest increase in ticket size.

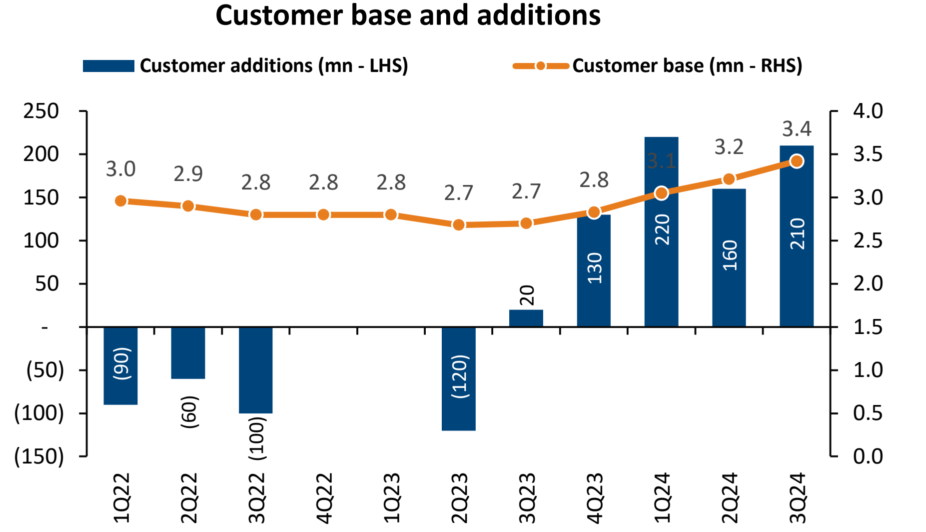
Figure 6: We expect ~30% AUM growth over FY23-26ii led by new customer acquisition and ATS growth



Source: Company, IIFL Research

With expansion in new states in south India and resumption of disbursements post COVID, Satin has acquired ~0.6mn customers in 9MFY24 after losing similar number of customers from FY20-23. The ATS for SCNL's MFI loans has grown at ~5% Cagr since FY22 to Rs46K as of 3QFY24. We expect future AUM growth drivers for SCNL to be a mix of customer acquisitions and increase in ATS.

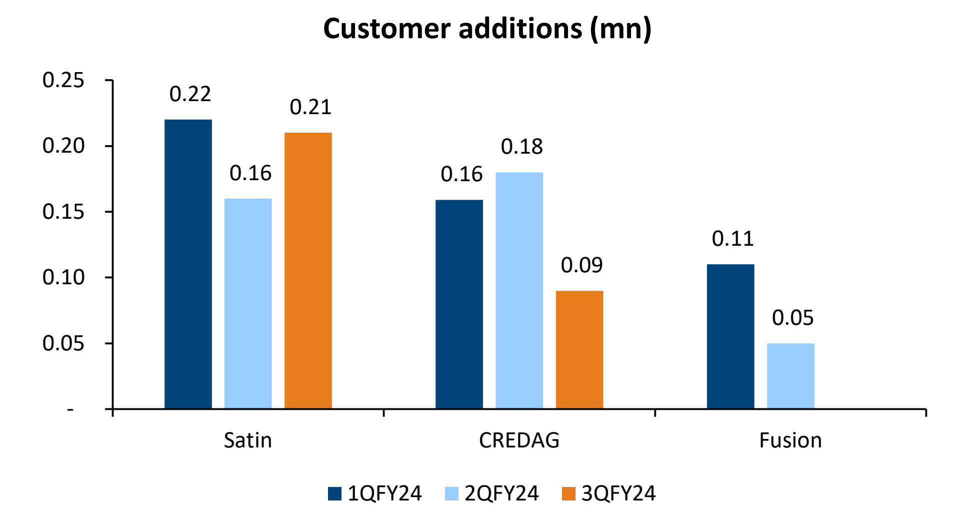
Figure 7: Satin recouped ~0.6mn customers lost from FY20-23 in 9MFY24…



Source: Company, IIFL Research

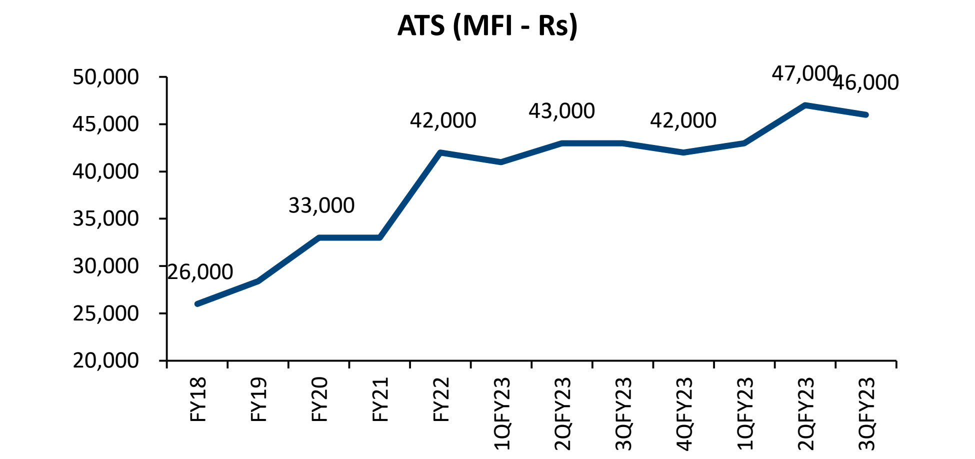
With the impact of the pandemic in the rear-view, SCNL has demonstrated an increase in market share of disbursals (NBFC-MFI) at 6.2% in FY23 v/s a low of 5.9% in FY22.

Figure 8:...acquiring 0.6mn in 9MFY24



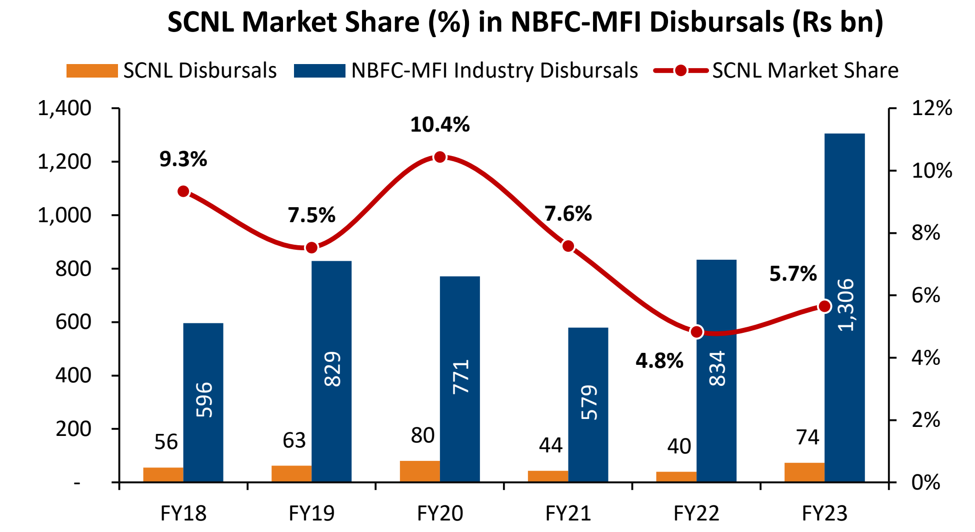
Source: Company, IIFL Research

Figure 9:Satin's ATS has grown at ~5% Cagr since FY22 to Rs46k



Source: Company, IIFL Research

Figure 10: SCNL regaining market share in MFI disbursals



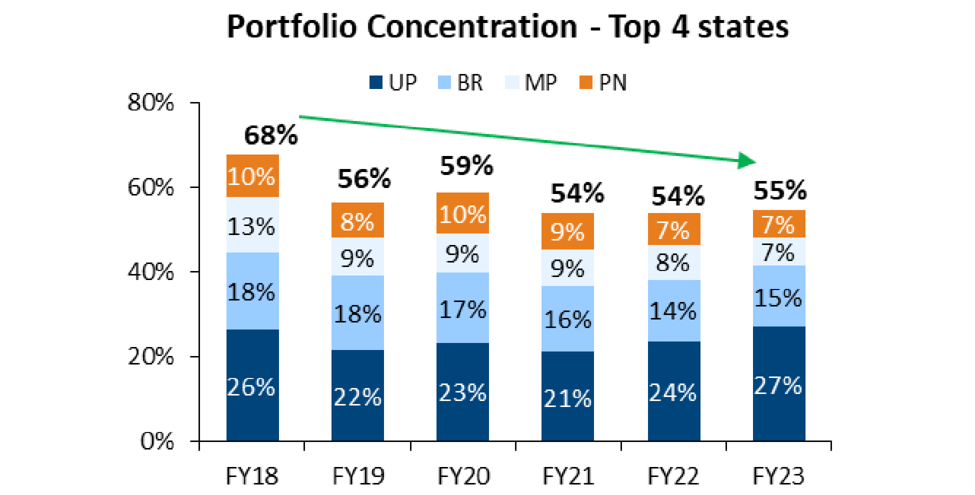
Source: Company, MFIN, IIFL Research

Minimizing the risks associated with geographical concentration is crucial for MFIs, as heavy focus on specific regions can lead to asset quality challenges caused by unforeseen events. Prior to demonetization, SCNL's portfolio was highly concentrated in North India, with Uttar Pradesh alone accounting for 41% as of FY16. However, SCNL has expanded its operations to include southern, eastern and north-eastern states, with the share of UP moderating to ~27% now and expanding its reach to ~50% of India's districts.

In comparison to other NBFC-MFI players, SCNL has successfully managed to de-risk its portfolio concentration with one of the lowest top 5 state concentration among major players. At the district level, the proportion of districts with portfolio exposure <1% has risen from 92.5% in FY18 to 96% in FY23 and proportion of districts with exposure >2% has decreased from 1% to 0.2% over the same time frame.

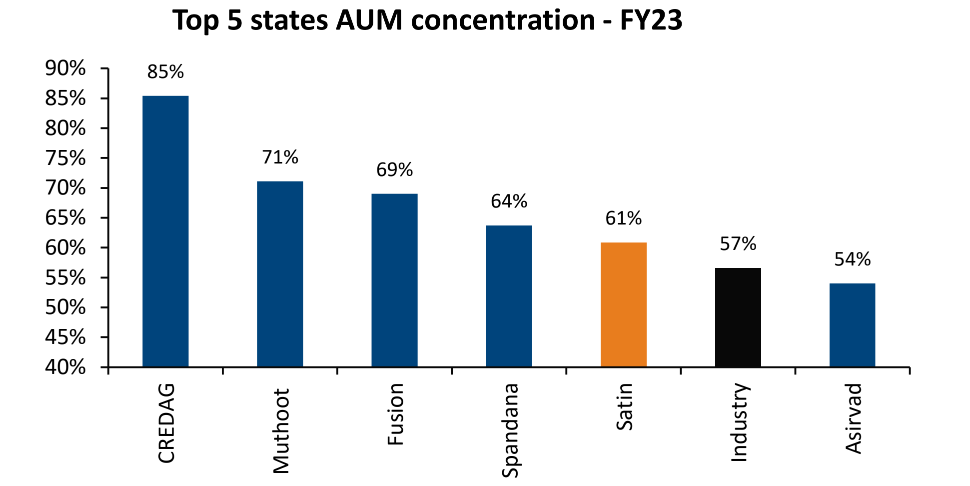
We anticipate that the SCNL's expansion and diversification efforts will continue to gather momentum, especially now that the impact of the pandemic has receded.

Figure 11: Satin has reduced top 4 state state concentration to 55% from 68% in FY18…



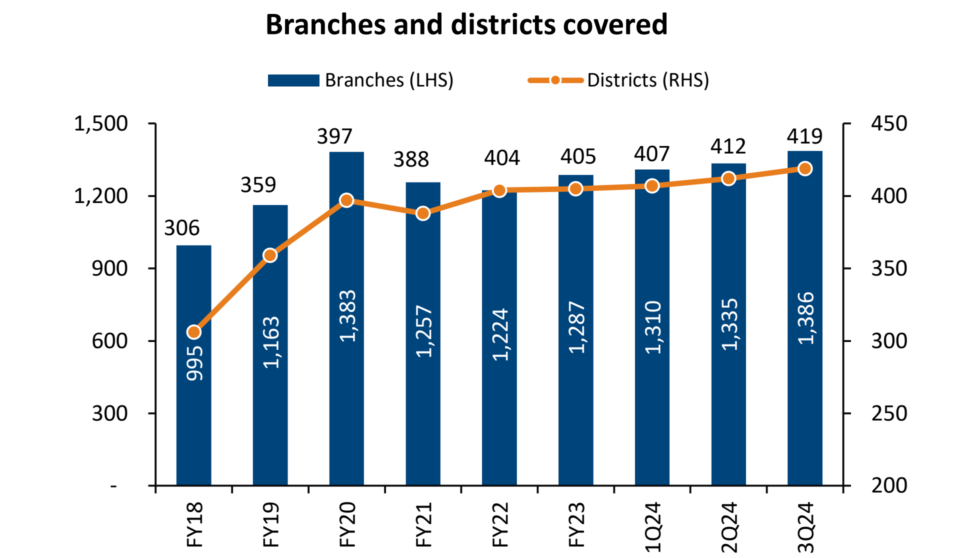
Source: Company, IIFL Research

Figure 13: Satin has amongst the lowest top 5 state portfolio concentration…



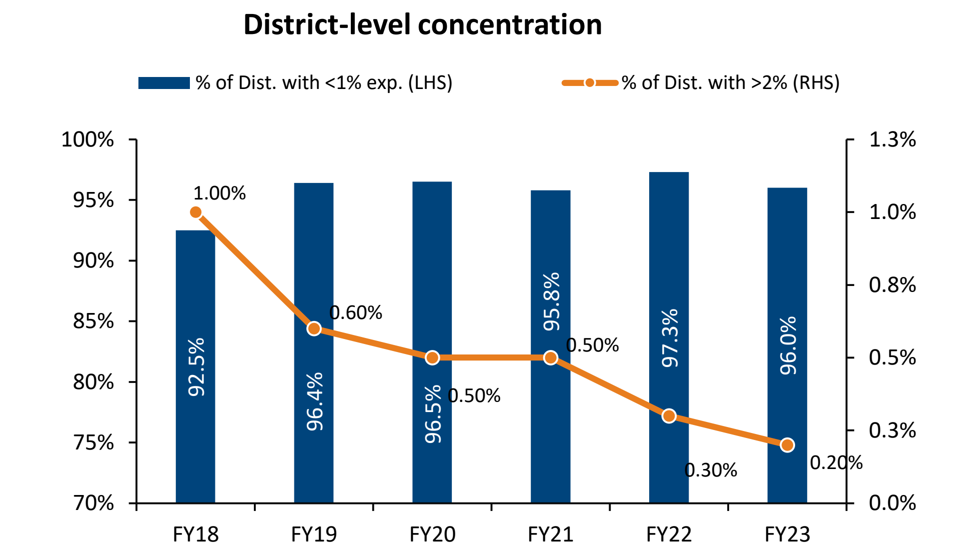
Source: Company, IIFL Research

Figure 12: …with expansion in new geographies



Source: Company, IIFL Research

Figure 14: …and has also reduced distruict level portfolio concentration



Source: Company, IIFL Research

Figure 15: Compared to its peers, SCNL has one of the lowest top 5 state concentration, rural exposure and cumulative credit cost as % of FY20AUM

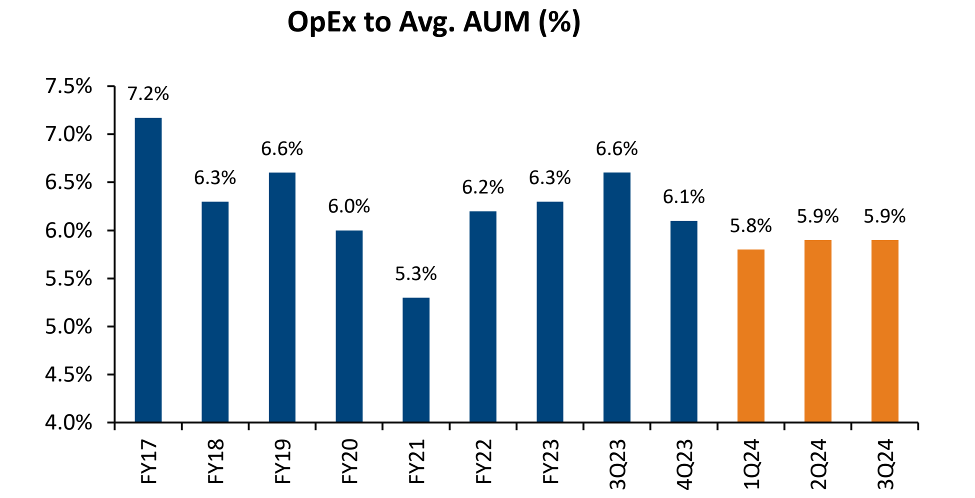
Particulars (FY23)	Units	Satin	CREDAG	Fusion	Spandana	Muthoot MFI	Asirvad MFI	Ujjivan SFB
AUM	Rs mn	91,150	210,310	92,960	85,110	92,083	100,409	173,660
% YoY	in %	20%	27%	37%	29%	47%	43%	41%
Disbursements	Rs mn	80,870	185,390	85,962	81,250	81,045	NA	160,590
% YoY	in %	67%	44%	39%	141%	74%		51%
Distribution and scale								
Branches	in nos	1,287	1,786	1,086	1,227	1,172	1,684	629
Customers (mn)	in mn	2.83	4.26	3.53	2.30	2.77	3.30	NA
Employees	in nos	11,131	16,759	10,363	10,016	10,227	-	17,870
Top 5 state concentration%	in %	61%	85%	69%	64%	71%	54%	59%
Rural %	in %	77%	85%	93%	87%	95%	76%	34%
Urban %	in %	23%	15%	7%	13%	5%	24%	66%
Productivity								
AUM/ Branch	in Rs mn	71	118	86	69	79	60	276
AUM/ Customer	in Rs	32,208	49,322	26,334	37,004	33,243	30,427	55,664
AUM/ Employee	in Rs mn	8.2	12.5	8.6	8.5	9.0	NA	9.7
Disbursements / Branch	in Rs	63	104	79	66	69	NA	255
Asset quality								
Par 30+	in %	3.8%	1.4%	4.2%	3.2%	3.6%	5.0%	
Par 90+	in %	3.2%	1.2%	3.5%	2.2%	3.0%	3.0%	2.6%
Total Provision % of AUM	in %	2.0%	1.8%	3.7%	3.1%	2.4%	2.8%	4.2%
Cumulative Credit cost as % of FY20 AUM	in %	10.6%	14.7%	21.9%	24.5%	9.4%	17.6%	15.8%

Note: FY23 nos for all companies unless stated otherwise. a) AUM, Customer and disbursements per branch/customer of Ujjivan SFB is for MFI business and rest is for company, b) AUM/ Customer of Ujjivans re present ATS of MFI, c) Ashirwad MFI's rural/urban exposure is as of FY22; Source: Company, IIFL Research

Improving operational efficiency

Satin operational efficiency reduced (opex increased) during Covid-19 as it focused on collections. However, since then it has experienced improved performance in 9MFY24. Apart from growth coming back, Satin has also been investing in tech to overhaul its customer acquisition, collections, and disbursements processes. The Opex to AUM ratio reached a multi-year low of 5.8% in 1QFY24. The improved operational efficiency has led to a 14% CAGR in AUM/Branch and an 18% CAGR in AUM/Employee over the past two years (1HFY22 – 1HFY24).

Figure 16: Satin's opex has improved post COVID with the resumption of growth

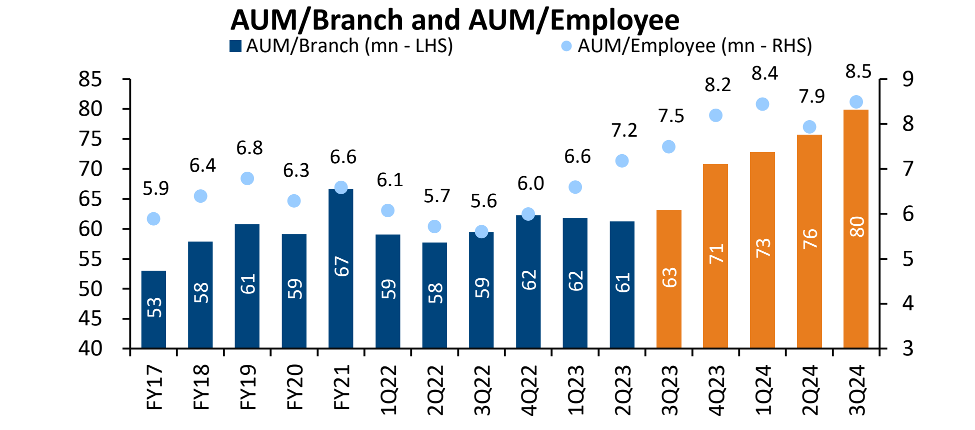


Source: Company, IIFL Research

Having observed a downturn in disbursements/branch and disbursements/employee levels during the pandemic, both metrics have surpassed pre-COVID levels in each of the last four quarters (4QFY23 – 3QFY24). As the impact of process optimization continues to evolve, we foresee these metrics maintaining their growth trajectory in medium term.

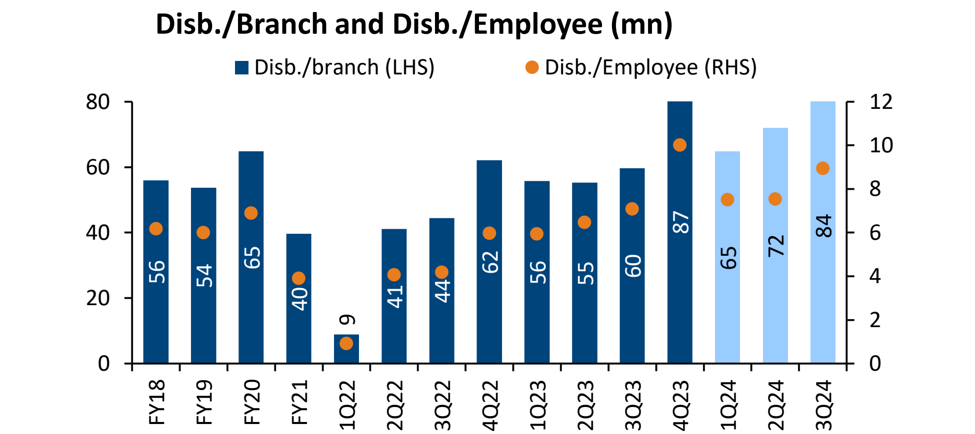
With growth resuming and as tech spends moderate, we expect Satin's opex ratios to moderate over FY25/26. We expect cost/income ratio and cost/avg. assets ratio to improve to 44%/6.3% in FY26E from 56%/6.8% respectively in FY23.

Figure 17: Robust growth in AUM/Branch and AUM/Employee



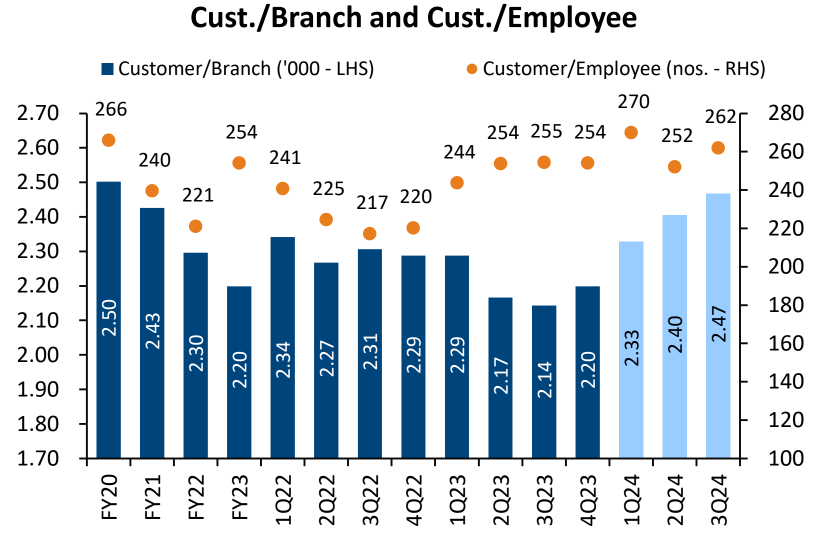
Source: Company, IIFL Research

Figure 18: Disbursement metrics crossing pre-COVID levels



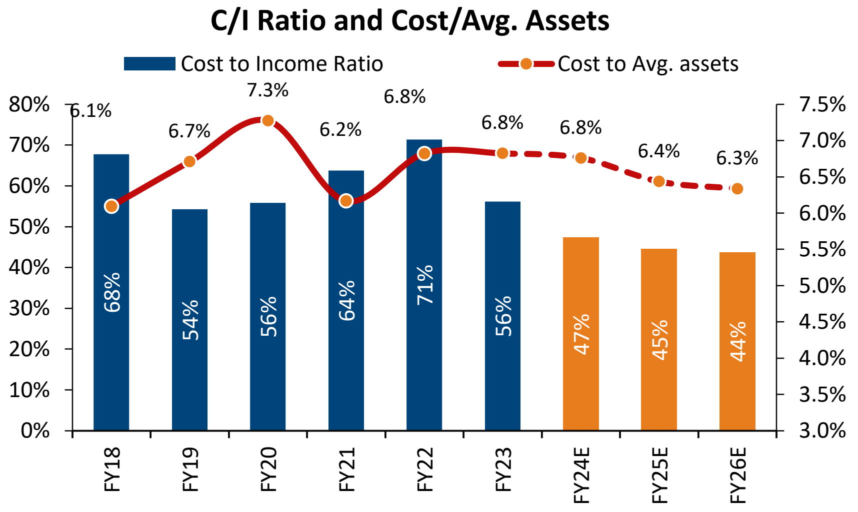
Source: Company, IIFL Research, Quarterly number are annualised

Figure 19: Improved customer acquisition metrics



Source: Company, IIFL Research

Figure 20: Improving C/I and Cost/Assets Ratios

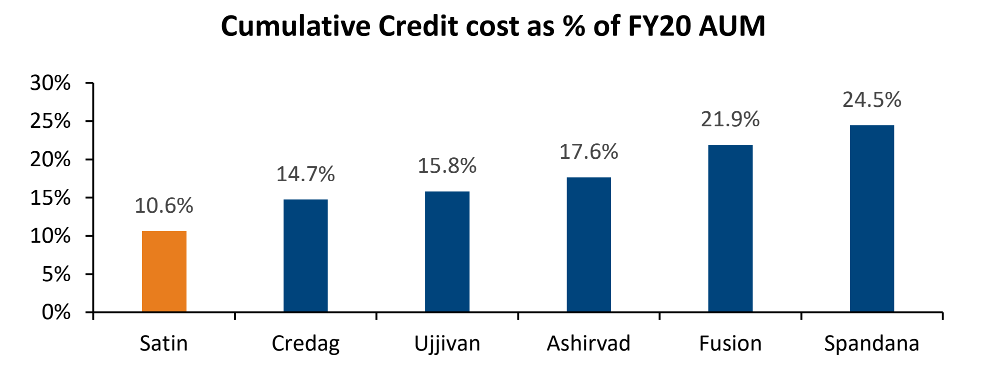


Source: Company, IIFL Research

AQ improving post pandemic; credit costs to inch up with rising MFI sector delinquencies

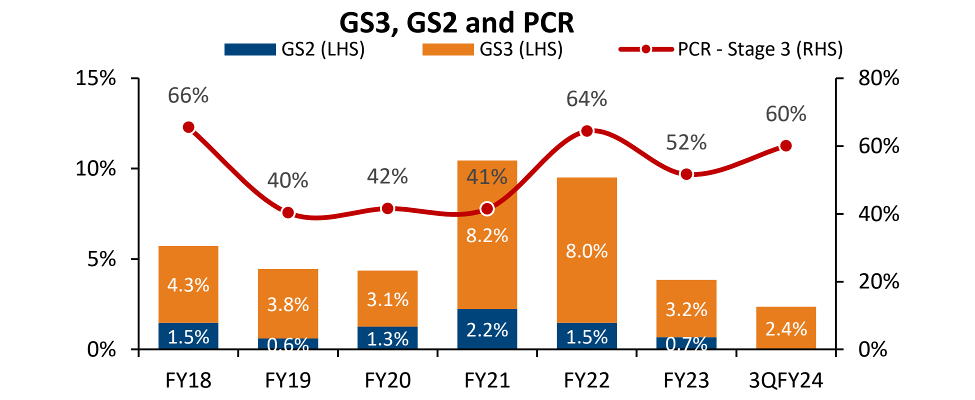
SCNL's asset quality was severely impacted due to the pandemic with gross NPA reaching peak of 8.2% in FY21. However, its focus on collections and and portfolio clean up (write-offs in FY20-23) has helped improve its asset quality with GNPA and NNPA at 3.2% and 0.7% respectively in FY23.

Figure 21: Satin had amongst the lowest cumulative credit cost as % of FY20 AUM…



Source: Company, IIFL Research

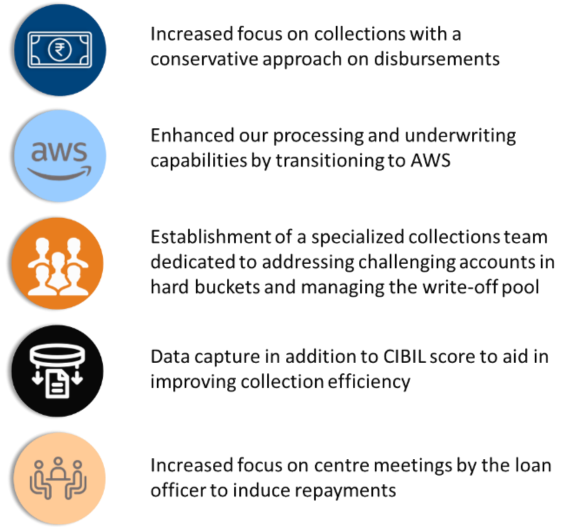
Figure 22: …with stage 3 loans improving to 2.4%



Source: Company, IIFL Research, 3QFY24 GS2 not reported

In fact, Satin's cumulative credit costs (FY20-23) was amongst the lowest for MFI players at ~10.5%. Further, Satin has strengthened its underwriting and collection processes post COVID by setting up a specialized collections team that focusses on hard bucket delinquencies and write-off pool. It has also increased focus on center meetings, is investing in tech and collecting additional customer data to improve its underwriting and collection outcomes. These have helped Satin recover Rs480mn (~8% of FY23 write-off) in FY23 and increase its collection efficiencies.

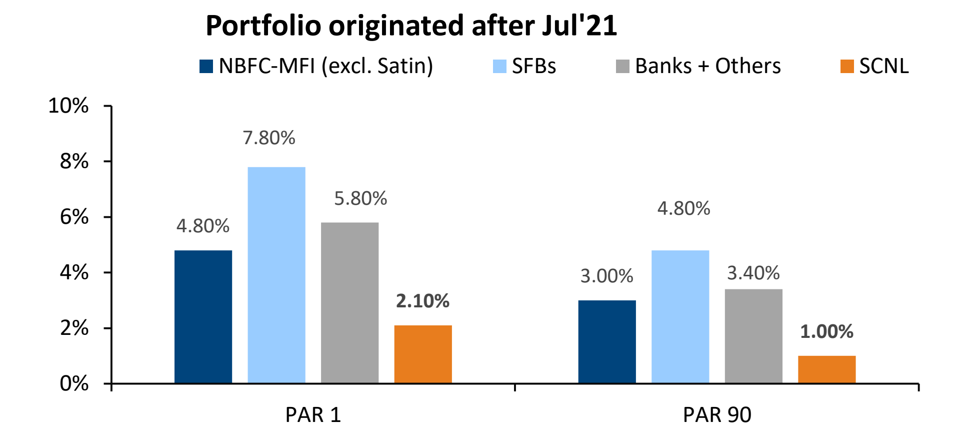
Figure 23: SCNL – overhaul of its underwriting and collection processes post COVID



Source: Company, IIFL Research

The performance of the new portfolio originated post July'21 has been the major driver of asset quality improvement for SCNL vis-à-vis the sector in general with PAR 1 and PAR 90 at 2.1% and 1.0% respectively. This portfolio constitutes about 96% of SCNL's total on-book portfolio.

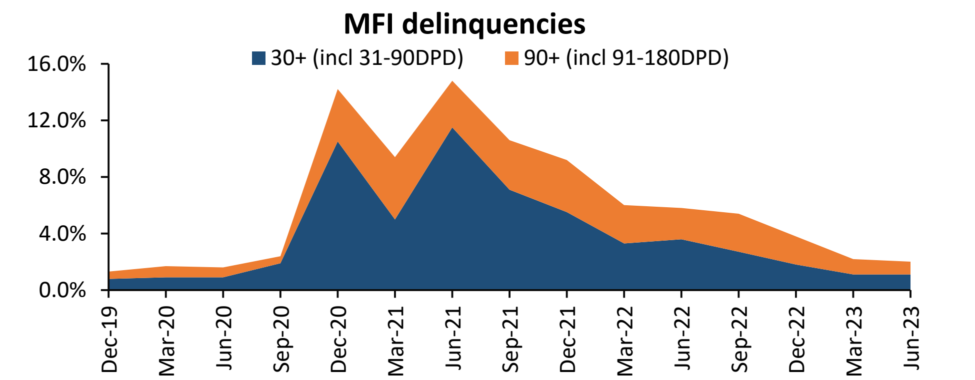
Figure 24: Satin's portfolio sourced post pandemic is performaing better than the sector in general



Source: CRIF, Company, IIFL Research, Industry data as of Nov'23

We note also note that at a sector level, MFI delinquencies seem to be improving with 30-180DPD delinquencies declining 20bps QoQ in Jun'23 to 2.0%, but are still higher than the pre-Covid range of ~1.5%. However, state level numbers demonstrate early delinquencies (1-180 DPD) rising ~10bps QoQ in states such as MP and Rajasthan. Whereas, 90+ DPD have risen 10-90bps QoQ in Punjab/UK/HR.

Figure 25: At the industry level, MFI delinquencies improving QoQ



Source: CRIF, IIFL Research

Figure 26: Early delinquencies rising in MP and RJ…

1-180 DPD	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
BR	9.9%	6.0%	5.3%	4.3%	2.9%	1.8%	1.7%
TN	19.9%	12.9%	9.3%	6.6%	4.5%	3.1%	2.4%
UP	8.4%	4.5%	4.7%	4.4%	3.9%	2.7%	2.7%
KA	11.8%	7.1%	5.6%	4.0%	2.7%	1.5%	1.2%
WB	21.3%	12.7%	14.6%	15.8%	11.0%	5.3%	4.4%
MH	10.8%	7.8%	7.1%	6.9%	4.7%	3.2%	3.1%
MP	13.6%	8.4%	7.9%	8.0%	5.6%	4.0%	4.1%
OR	11.2%	7.1%	6.1%	6.2%	4.9%	3.4%	3.0%
RJ	13.2%	8.4%	7.7%	7.4%	5.6%	4.4%	4.5%
KL	26.9%	15.6%	10.9%	9.7%	6.1%	3.3%	3.2%

Source: CRIF, IIFL Research

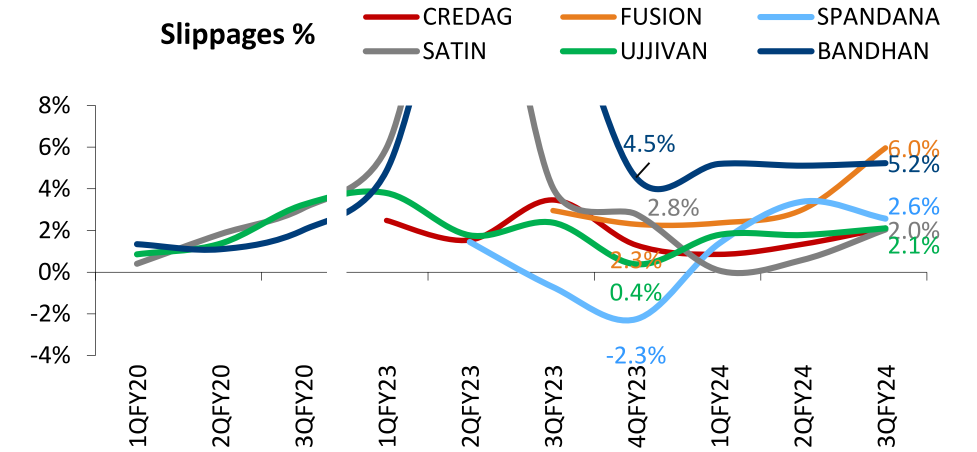
Figure 27: …and 90+ delinquencies increasing 10-90bps QoQ in PB/UK/HR/SK

Statewise 90+ DPD	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
JK	0.5%	0.3%	0.5%	0.3%	0.5%	0.2%	0.1%
HP	0.7%	0.7%	0.5%	0.5%	0.4%	0.4%	0.4%
PB	6.1%	2.9%	2.3%	1.6%	2.3%	1.2%	2.1%
UK	2.9%	1.8%	1.9%	2.8%	2.2%	0.9%	1.1%
HR	3.4%	1.8%	1.8%	4.2%	2.4%	1.2%	1.3%
RJ	3.4%	2.7%	2.3%	2.6%	2.0%	1.4%	1.3%
UP	2.1%	1.3%	1.1%	1.3%	1.2%	0.6%	0.6%
BR	2.7%	1.7%	1.2%	1.4%	1.1%	0.6%	0.4%
WB	7.5%	4.2%	3.3%	5.4%	4.8%	1.9%	1.4%
SK	3.4%	2.5%	2.3%	5.7%	3.4%	1.2%	1.3%
GJ	2.3%	2.3%	2.0%	2.6%	1.7%	1.3%	1.3%
MP	3.3%	3.2%	2.5%	3.0%	2.3%	1.4%	1.4%
CG	2.9%	3.4%	2.3%	3.0%	2.3%	1.2%	1.1%
JH	3.0%	2.1%	1.7%	1.5%	1.3%	0.8%	0.6%
OD	3.0%	2.9%	2.1%	2.5%	2.0%	1.4%	1.1%
MH	3.1%	2.9%	2.2%	2.6%	1.8%	1.1%	1.0%
GOA	2.9%	2.3%	2.3%	3.2%	2.0%	1.0%	0.6%
KL	3.5%	4.4%	3.2%	3.0%	2.1%	1.0%	0.8%
KA	2.1%	5.0%	1.6%	1.3%	1.4%	0.9%	0.5%
TN	4.0%	2.8%	3.8%	4.0%	2.6%	1.2%	0.8%
AR	1.1%	0.7%	2.8%	1.7%	1.4%	0.7%	0.5%
NA	3.7%	3.2%	3.1%	10.6%	5.0%	0.8%	0.8%
MA	3.1%	1.3%	2.4%	2.4%	1.2%	0.4%	0.4%
MZ	5.9%	3.0%	2.5%	2.7%	1.9%	0.5%	0.4%

Source: CRIF, IIFL Research

Further, we note that slippages for individual MFIs bottomed out in 4QFY23 and since then it has been inching up. In last 2Q (2Q/3Q FY24), slippages have increased 10-300bps (ann.) sequentially for MFIs. This is due to loan waiver campaigns ('Karza Mukti Abhiyan') being run by local political organisations in some northern states (Punjab / Haryana) and floods in TN.

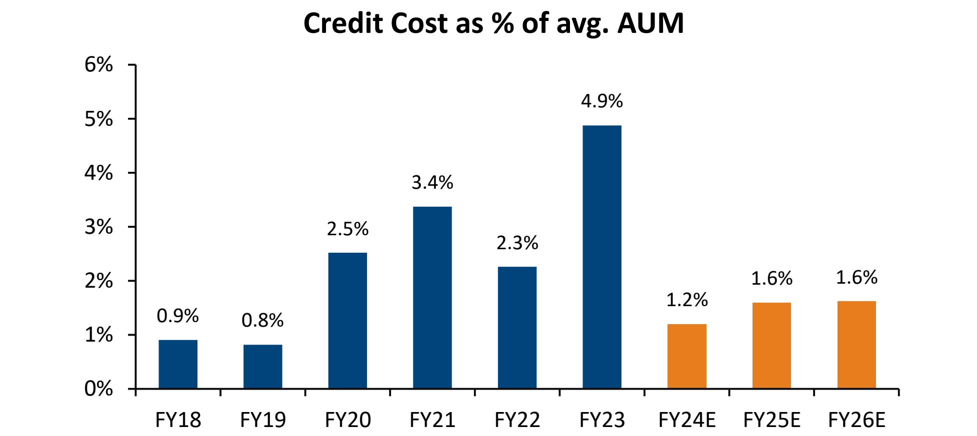
Figure 28: Slippages rising after bottoming out in Mar-23; increased ~10-300bps QoQ in 3QFY24



Source: Company, IIFL Research

Satin has ~20% of its AUM in these states of Punjab, RJ and MP. Consequently, we expect Satin's credit costs to inch up over FY25-26ii to ~1.6% of AUM from lows of ~1.2% in FY24.

Figure 29: We expect credit costs to moderate due to improvement in underwriting capabilities

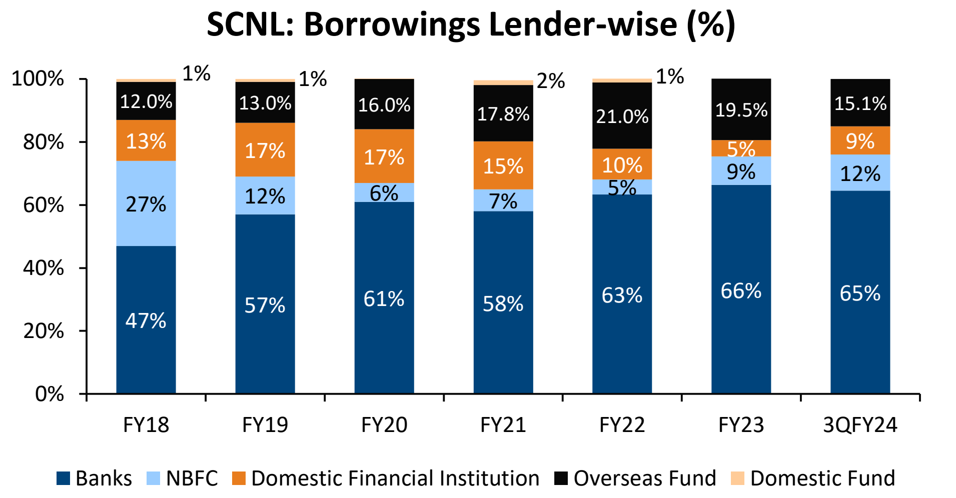


Source: Company, IIFL Research

Healthy margins to drive improvement in return ratios

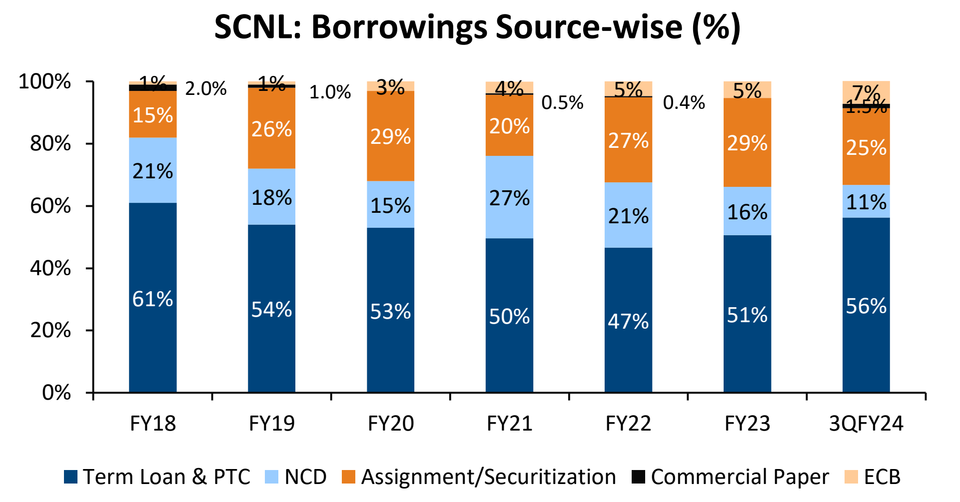
Although SCNL has been gradually diversifying its borrowing profile, bank borrowings still account for 65% (3QFY24) of SCNL's funding requirements (CREDAG – 53%; Fusion – 79%). In 3QFY24 SCNL's credit rating has been upgraded to A (stable) by ICRA from from A- (Negative) at the start of the year. This may help SCNL in maintaining its cost of funds. However, we expect yields to moderate ~25-30bps over FY25-26ii as share of relatively lower yielding home loans and MSME loans increase and as it passess on some rate cuts to borrowers over next 6 months. Consequently, we expect Satin's spreads to compress ~15bps over next two years even as its NIMs will likely sustain on lower leverage (warrant conversion and QIP fundraise).

Figure 30: 64% of SCNL's liability profile consists of bank borrowings



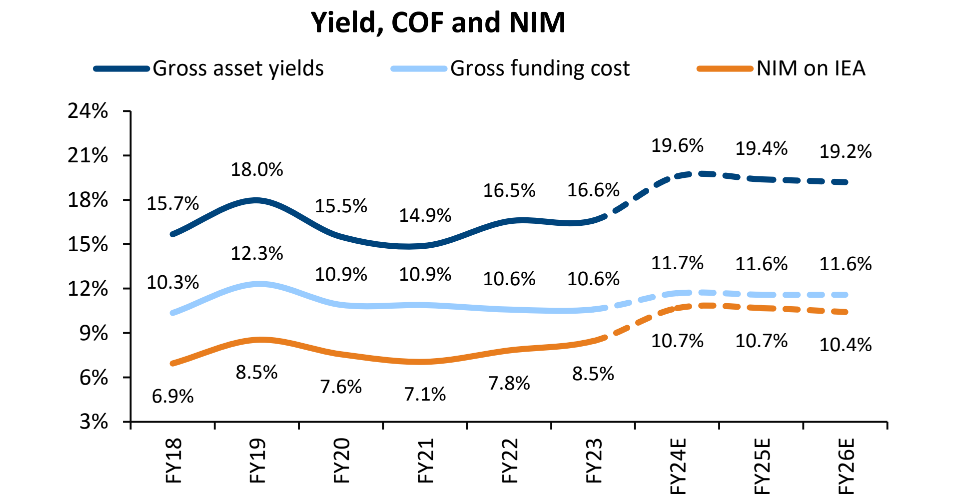
Source: Company, IIFL Research

Figure 31: 56% of SCNL's borrowings are term loans



Source: Company, IIFL Research

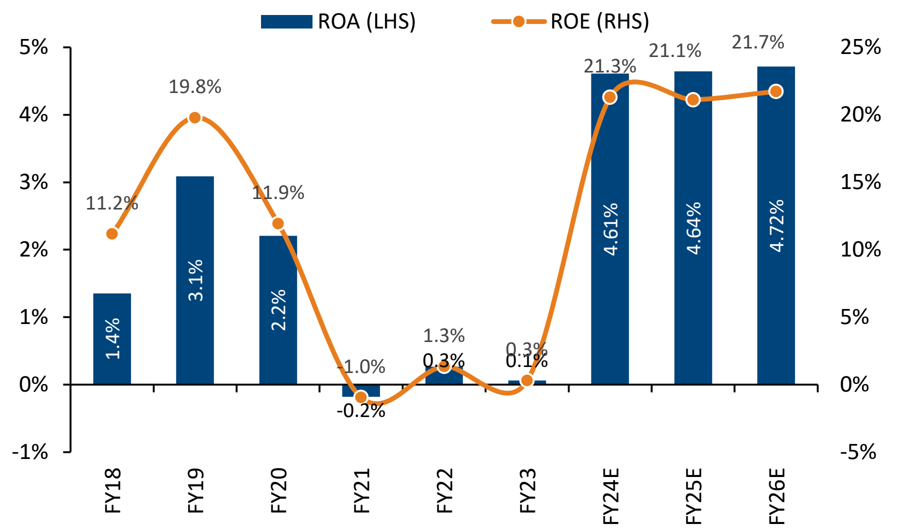
Figure 32: NIMs to expand ~220 bps in FY24E on the back of credit rating upgrade



Source: Company, IIFL Research

The COVID pandemic had severely affected SCNL's return ratios due to high asset quality stress, elevated credit costs and de-growth in AUM. However, SCNL has bounced back post COVID with improved asset quality of portfolio originated post July'21 and growth resuming (~40% YoY AUM growth in 3QFY24). We expect SCNL to deliver ROE of ~20% and ROA of ~4.6% over FY24E-26E.

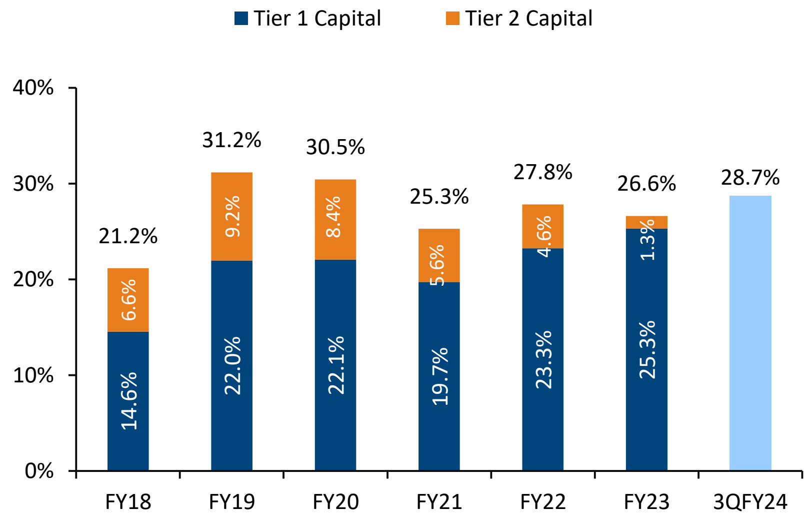
Figure 33: We expect Satin to be able to deliver ~21+% ROEs over next 3yrs



Source: Company, IIFL Research

After Rs3.7bn fund raise (Rs 1.2bn through warrant conversion and Rs2.5bn QIP in 3QFY24), Satin is well capitalised with CRAR of 28.7%.

Figure 34: SCNL is well-capitalized with CRAR ratio of 28.7% after Rs3.7bn fund raise in FY24



Source: Company, IIFL Research, 3QFY24 number represents CRAR

Initiate with BUY and TP of Rs350

After a long haitus during COVID, Satin is well on its path to grow at ~30% led by customer acquisition, geographical expansion, ATS growth and scale up of non-MFI segments (MSME and affordable HL). It has also been making strategic improvements in its underwrtiting and collections processes, investing in tech and making key leadership changes. Consequently, we expect Satin to sustain its FY24 performance and deliver ROAs/ROEs of 4.7%/21.5% by FY26 with EPS growth of 21% Cagr (FY24-26ii). Its valuations at 1x FY25 P/B are undemanding and are at 42%/41% discount to Fusion/Spandana. Initiate coverage with BUY rating and a target price of Rs350, implying 1.3x P/B multiple on FY25 book.

Figure 35: Key leadership additions at SCNL

Appointments	Position	Remarks
Mr. Anil Kaul	Independent Director	Former MD of Tata Capital Housing Finance Ltd.
Mr. Bhuvnesh Khanna	CEO - Satin Finserv	Former Head of SME - HSBC India
Mr. Manoj Agrawal	Deputy CFO	Former Head of Operations - JP Morgan Chase

Source: Company, IIFL Research

Figure 36: Satin is trading at ~40% discount to Fusion / Spandana for ROAs that are 10%/5% lower than Fusion/Spandana

		MCap	P/B (x)		P/E (x)		ROA (%)		ROE (%)	
	CMP	(Rs bn)	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25
SATIN	253	28.0	1.2	0.9	5.7	4.9	4.6	4.6	21.3	21.1
FUSION	569	57.5	2.0	1.6	10.8	8.5	5.0	5.1	20.5	21.1
CREDAG	1,596	254.1	3.9	3.1	18.0	14.8	5.6	5.4	24.2	23.3
SPANDANA	963	68.5	1.9	1.6	13.7	10.3	4.7	4.8	14.9	16.9

Source: Bloomberg Professional, Company, IIFL Research

Figure 37: SCNL ROE Tree

(% of total AUM)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest income	14.1%	15.4%	14.9%	17.7%	17.8%	17.5%
Interest expense	7.7%	7.9%	7.4%	8.5%	8.5%	8.2%
Net interest income	6.4%	7.5%	7.6%	9.2%	9.3%	9.3%
Total non-interest income	2.6%	1.9%	3.7%	3.3%	3.4%	3.4%
Total revenue	9.0%	9.4%	11.3%	12.5%	12.7%	12.6%
Total opex	5.7%	6.7%	6.3%	5.9%	5.7%	5.5%
PPOP	3.3%	2.7%	4.9%	6.6%	7.0%	7.1%
LL & Prov.	3.4%	2.3%	4.9%	1.2%	1.6%	1.6%
PBT	-0.1%	0.4%	0.1%	5.4%	5.4%	5.5%
Tax	0.1%	0.2%	0.0%	1.3%	1.4%	1.4%
ROA	-0.2%	0.3%	0.1%	4.0%	4.1%	4.1%
ROA as % of total assets	-0.2%	0.3%	0.1%	4.61%	4.64%	4.72%
Leverage	5.2	5.1	4.8	4.62	4.55	4.61
ROE	-1.0%	1.3%	0.3%	21.3%	21.1%	21.7%
Total AUM	83,790	76,170	91,150	120,979	155,625	195,337

Source: Company, IIFL Research

Figure 38: Shareholding Pattern

Shareholders	Dec-23
Promoter & Promoter Group	36.1%
Mutual Fund	1.6%
AIFs	1.0%
Insurance Companies	3.1%
FIIs	9.6%
Bodies Corporate	11.8%
Florintree Ventures LLP	11.1%
Public & Others	25.7%
Total	**100.0%**

Source: Company, IIFL Research

Key risks

1. Lending to economically weaker section
MFI loans are essentially unsecured loans given to the bottom of the pyramid customers. This exposes MFIs to a much higher degree of credit risk, which has been episodic in case of Indian MFIs. Thus, any developments impacting these customers would have higher impact on MFIs — and to that extent — Satin would be exposed to the same.

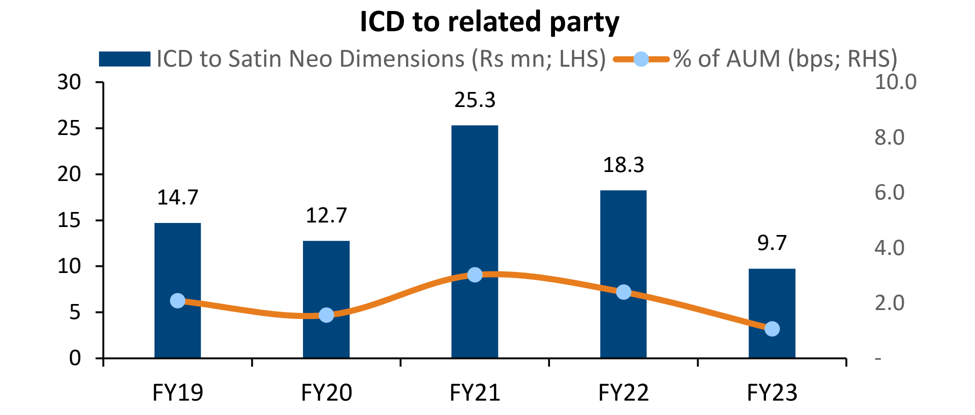
2. Prone to event-based risks
Over the last decade, MFIs have witnessed multiple event-based risks ranging from AP MFI crisis, demonetization, Assam MFI crisis, Covid-19 — apart from numerous other natural calamities that disproportionately affect MFI customers. Like any other MFI, Satin is also exposed to these risks.

3. Political risk
Catering to economically vulnerable segment of population also exposes MFIs to the risks from political interference, especially around election times. Sometimes, this interference may even be at a local district level. Events such as these weaken the credit behaviour of these customers, apart from NPAs. Being an MFI, Satin is exposed to this risk.

4. Governance concerns
Satin has related party transactions in the form of inter-corporate loans given to an entity owned by its promoters, Satin Neo Dimensions Pvt. Ltd. Mr. Sativinder Singh, Director of Satin Creditcare is the founder and MD of the said entity. Although we note that the quantum of it is miniscule – Rs 9.7mn (1.1bps of AUM) as of FY23 and has reduced by 60% over last two years.

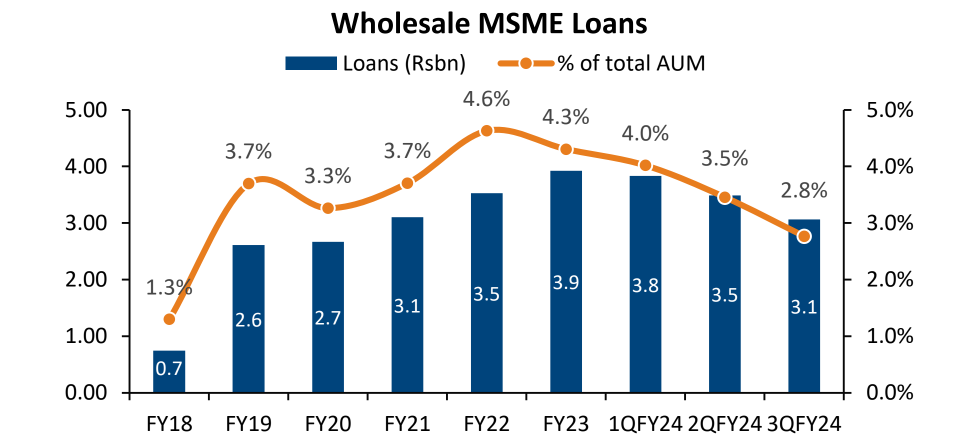
Historically, Satin held a significant portion (peak of 4.6% of total AUM as of FY22) of wholesale/big-ticket MSME assets on the parent company's loan book. It has been a cause of concern due to the non-core nature of the portfolio and the large ticket sizes. Company is incrementally not disbursing these loans and existing book is also reducing with repayments and company expects it to fully run-down over next 3-4 years. We note that this portfolio has declined by 22% in absolute terms in 9MFY24 with its share now down to 2.8% of total AUM as of 3QFY24.

Figure 39: Related party transactions – inter corporate loans (outstanding)



Source: Company, IIFL Research,

Figure 40: Wholesale MSME loan book coming down to 2.8% of total AUM as of 3QFY24



Source: Company, IIFL Research,

Figure 41: Select Board of Directors and Key Management Personnels

Board of Directors and Key Management		
H P Singh	Chairman cum MD	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. He is a law graduate and fellow of The Institute of Chartered Accountants of India since 1984. Under his leadership, SCNL has evolved into a leading microfinance institution in India, holding a strong national presence and serving millions of rural households with a diverse range of offerings including microfinance, MSME and affordable housing loans.
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. Mr. Kataria worked with Apollo Tyres Limited and Berger Paints (India) Limited before joining SCNL in 2000.
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. 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.
Bhuvnesh Khanna	CEO - Satin Finserv Limited	Mr. Khanna is a graduate from St. Xavier's College, Kolkata and holds the Chartered Accountant degree from the 1994 batch. Throughout his 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. Khanna brings a wealth of experience in National, Regional and Global roles, providing him with exposure to business/country head positions with P&L responsibilities.
Manoj Agrawal	Deputy CFO	Mr. Agrawal, a rank holder chartered accountant with an impressive 24-year journey in financial operations management, client service, risk and controls, regulatory compliance, and strategic transformation, is set to assume the new challenging role. He has worked with organizations like J.P. Morgan Chase for about 13 years, where his last position was as Head – Operations and Client Experience, ICICI Bank Limited for about 8 years, and other reputed companies.
Aditi Singh	Head - Strategy	Ms. Singh has more than 14 years of experience in the Financial services industry across several functions. 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.

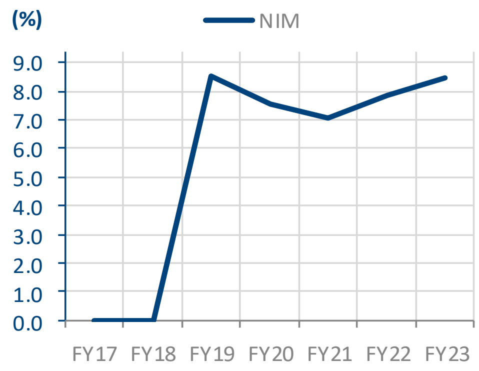
Source: Company, IIFL Research

Background: Satin Creditcare Network Limited (SCNL or Satin) is a leading Microfinance Institution (MFI) in the country with presence in 24 states & union territories and 97,000 villages. The Company's mission is to be a leading micro financial institution by providing a comprehensive range of products and services for the financially under-served community. The Company also offers a bouquet of financial products in the Non-MFI segment, comprising of loans to MSMEs, affordable housing loans, and business correspondent services.

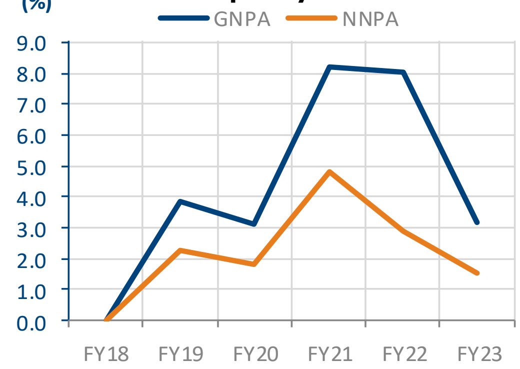
Management

Name	Designation
HP Singh	Chairman cum MD
Rakesh Sachdeva	CFO
Manoj Agrawal	Deputy CFO

Trend in margins



Asset quality trends

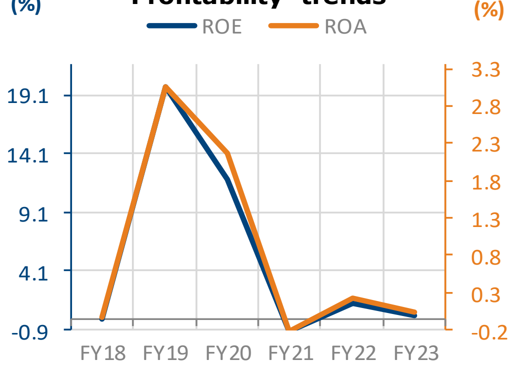


Key earnings drivers

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Loan Growth (%)	(9.1)	19.7	32.7	28.6	25.5
Net Interest Margin (%)	7.8	8.5	10.8	10.9	10.8
Net int income growth (%)	12.8	5.9	53.8	32.5	26.0
Core fee income growth (%)	(28)	102.1	14.6	32.1	26.2
Non-int inc/total inc (%)	20.4	32.9	26.8	26.7	26.7
Operating costs growth (%)	13.2	(1.2)	18.8	24.6	23.8
Cost/income ratio (%)	71.4	56.1	47.3	44.6	43.8
Gross Stage 3 (%)	8.0	3.2	2.2	2.1	2.1
Total Prov/avg loans (%)	6.0	2.1	1.9	1.8	1.9

Source: Company data, IIFL Research

Profitability trends



PB Chart

Financial summary

Income statement summary (Rsm)

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Net interest income	**5,970.2**	**6,322.4**	**9,720.8**	**12,881.4**	**16,232.3**
Assignment income	0.0	0.0	0.0	0.0	0.0
NII (incl. assignment income)	**5,970.2**	**6,322.4**	**9,720.8**	**12,881.4**	**16,232.3**
Other operating income	1,534.0	3,100.5	3,552.6	4,694.2	5,922.6
Net operating income	**7,504.2**	**9,422.9**	**13,273.4**	**17,575.7**	**22,154.8**
Total operating expenses	5,355.1	5,289.7	6,284.1	7,832.0	9,693.7
Pre provision operating profit	**2,149.2**	**4,133.2**	**6,989.2**	**9,743.7**	**12,461.1**
Provisions for loan losses	1,807.4	4,080.8	1,274.0	2,209.3	2,841.6
Profit before tax	**341.8**	**52.4**	**5,715.3**	**7,534.4**	**9,619.5**
Taxes	134.8	4.3	1,428.8	1,883.6	2,404.9
Net profit-pre exceptional	**207.0**	**48.1**	**4,286.5**	**5,650.8**	**7,214.6**
Exceptional items	0.0	0.0	0.0	0.0	0.0
Reported net profit	**207.0**	**48.1**	**4,286.5**	**5,650.8**	**7,214.6**

Balance sheet summary (Rsm)

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Net loans & advances	53,084.2	63,288.6	86,383.4	111,177.5	139,434.0
Cash & equivalents	20,019.4	11,143.6	17,131.1	21,596.3	27,107.2
Investments	485.7	617.6	0.0	0.0	0.0
Fixed assets	828.2	868.2	955.0	1,050.5	1,155.6
Other assets	2,135.2	2,577.8	2,988.0	2,148.3	2,275.1
Total assets	**76,552.7**	**78,495.7**	**107,457.5**	**135,972.6**	**169,971.9**
Borrowings (Incl. Deposits)	57,435.2	59,112.5	79,945.1	102,274.3	128,443.6
Non-interest-bearing liabilities	3,299.0	3,102.0	3,567.3	4,102.3	4,717.7
Total liabilities	**60,734.2**	**62,214.4**	**83,512.4**	**106,376.6**	**133,161.3**
Net worth (excl. MI)	15,818.5	16,281.2	23,945.2	29,596.0	36,810.6
Minority interest	0.0	0.0	0.0	0.0	0.0
Total Shareholders' equity	**15,818.5**	**16,281.2**	**23,945.2**	**29,596.0**	**36,810.6**
Total liabilities & equity	**76,552.7**	**78,495.7**	**107,457.5**	**135,972.6**	**169,971.9**
AUM (Rs bn)	76,170.0	91,150.0	120,979.5	155,624.9	195,337.3

Source: Company data, IIFL Research

Ratio analysis - I

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Growth ratios (%)					
AUM	(9.1)	19.7	32.7	28.6	25.5
Loan	(8.7)	19.2	36.5	28.7	25.4
Borrowings	(7.1)	2.9	35.2	27.9	25.6
FDEPS	(231.9)	(79.5)	6736.1	31.8	27.7
BVPS	(5.1)	(9.5)	12.9	23.6	24.4
Spread Analysis (%)					
Yield on AUM	15.4	14.9	17.7	17.8	17.5
Cost of Funds	10.9	10.6	10.6	13.0	12.8
Spread on loans	7.8	8.5	10.8	10.9	10.8
NIM	7.8	8.5	10.8	10.9	10.8
Other ratios (%)					
Cost to Income	71.4	56.1	47.3	44.6	43.8
Provisions/PPoP	84.1	98.7	18.2	22.7	22.8
Tax rate	39.4	8.2	25.0	25.0	25.0
Net Debt to Equity (x)	2.4	2.9	2.6	2.7	2.8

Ratio analysis - II

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Asset quality ratios (%)					
Gross Stage 3	8.0	3.2	2.2	2.1	2.1
PCR	64.4	51.7	52.7	52.7	52.7
Total prov charges as % avg loans	6.0	2.1	1.9	1.8	1.9
Net Stage 3	2.9	1.5	1.1	1.0	1.0
Profitability ratios (%)					
ROA	0.3	0.1	4.6	4.6	4.7
ROE	1.3	0.3	21.3	21.1	21.7
Capital ratios (%)					
Total CAR	25.3	27.8	26.6	30.9	31.0
Tier I capital ratio	23.3	25.3	29.9	30.2	30.8

Source: Company data, IIFL Research

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SELL - Stock expected to give a return 10%+ below the average return on a debt instrument over a 1-year horizon.

Add - Stock expected to give a return 0-10% over the average return on a debt instrument over a 1-year horizon.

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