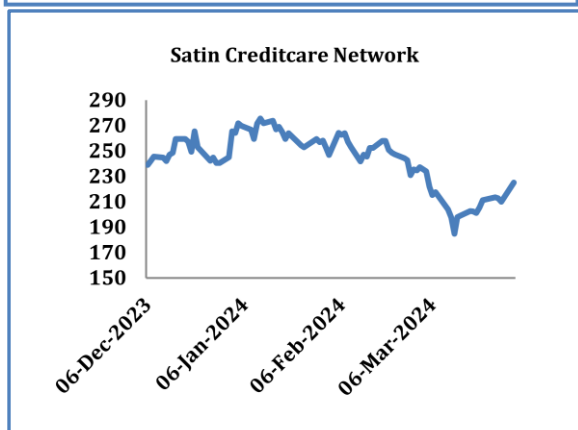


April 02, 2024

SATIN CREDITCARE NETWORK LTD.

Industry	Finance Term Lending
No. of Shares (Crore)	11.05
Face value (Rs.)	10.00
Mkt. Cap (Rs. Crore)	2,487.25
Price (01/04/2024)	225.15
Book Value (Rs)	204.91
P/BV	1.10
BSE Code	539404
NSE Code	SATIN
Bloomberg	SATIN IN
Reuters	SATR.BO
Avg. Weekly Volume (NSE)	6,42,230
52 W H/L (Rs)	283.65 / 117.70

Shareholding Pattern	%
Promoters	36.06
Institutions	17.85
Non- Institutions	46.09
Total	100.00


Company Background

Satin Creditcare Network Ltd (SCNL) is one of India's leading microfinance institutions with a presence across 24 states covering more than 96,000 villages. It offers bouquet of financial products in the Non-MFI segment, comprising of loans to MSMEs, affordable housing loans, and business correspondent services. In 2017, SCNL incorporated Satin Housing Finance Ltd, a wholly owned subsidiary with the aim of providing financing in the affordable housing segment. It's other subsidiary is Satin Finserv Ltd, providing secured MSME loans.

Investment Rationale

- SCNL has an established track record of operations of more than three decades in the finance industry. It is one of the largest players in the microfinance industry with a consolidated AUM of Rs. 11,074 Cr as on Dec 31, 2023.
- SCNL saw an improvement in its consolidated profitability metrics in FY24, after witnessing weak profitability in the past three fiscals due to the pandemic-induced impact on its operations and asset quality. It reported a consolidated PAT of Rs 308 Cr in 9MFY24. The improvement in the profitability in FY24 was on account of the increase in the NIM, driven by higher yields and lower credit costs with the gradual improvement in the asset quality indicators.
- SCNL has been able to raise capital in a timely manner. It had raised equity of around Rs. 88 Cr during the first half of FY24 and Rs. 250 Cr via a QIP in December 2023. This is expected to support the company's envisaged growth and provide cushion for the absorption of any further credit losses.
- 15 rounds of capital raise done since 2008. SCNL had raised Rs. 1,537 Cr since 2008 out of which Rs. 595 Cr was raised post Covid-19.
- SCNL has a well-diversified funding profile comprising multiple lenders. Its funding profile has improved steadily with term loans from banks accounting for 57%, NBFCs' 11.5%, financial institutions 8.9% and 15.1% from overseas funds as on Dec 31, 2023.
- At the standalone level, SCNL reported a GNPA of 2.4% and a capital-to-risk weighted assets ratio (CRAR) of 28.7% at the end of Dec 31, 2023 which is well above the regulatory requirement with Stage-3 Provision Coverage Ratio at 61% as on Q3FY24. SCNL has maintained a CRAR above 25% during the last 5 years, thus enabling it to raise timely capital whenever it required.
- Stable NIMs' of greater than 12% and limited credit cost of less than 1.5% have led to a RoA of greater than 4% for the last 4 quarters.
- Strong net customer addition of 6.3 Lacs in 9MFY24 with overall client base having crossed the 3 million mark.

Recommendation

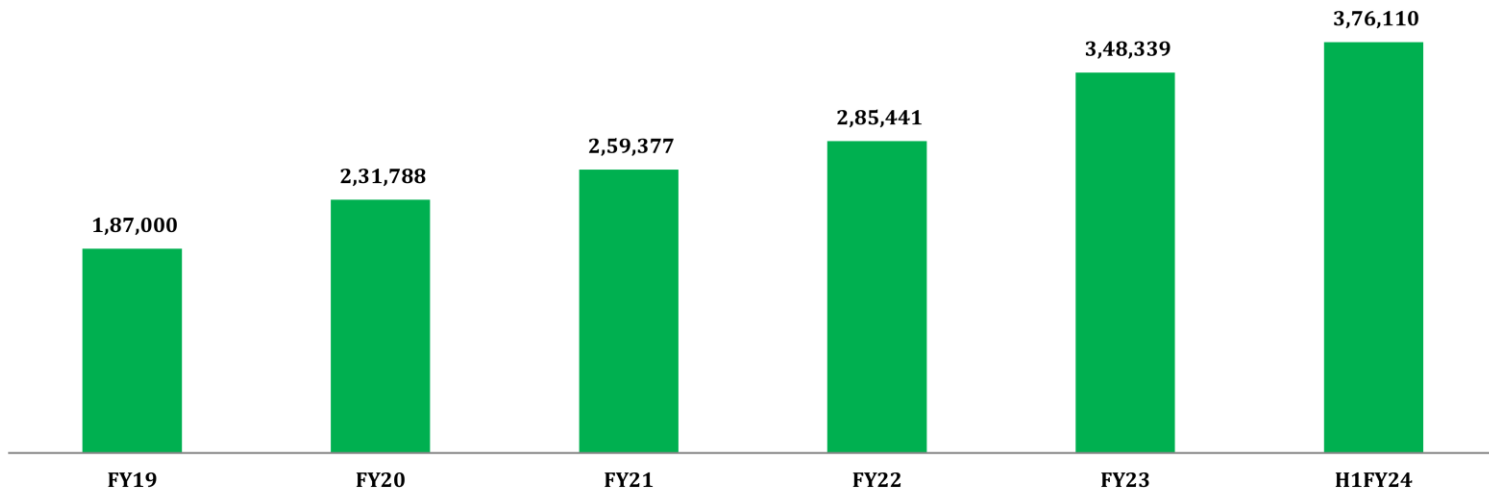
Satin Creditcare Network Ltd has been able to make an impressive all round performance in terms of operations and profitability post the Covid-19 pandemic. Strong credit underwriting process and adequate risk management measures have brought down the GNPA levels to significantly low levels. AUM growth both for the standalone entity as well as its' subsidiaries remain strong. Timely raising of capital even in tough economic scenarios has been one of the strong features of SCNL which has improved its credit ratings as a whole. We would recommend a BUY with a target price of Rs 286 in the next 9-12 months' time period, thus implying a rise of 27% from the current levels.

Particulars (In Rs. Crs)	Q3FY24	Q3FY23	Var%	9MFY24	9MFY23	Var%
Net Sales & Other Operating Income	595.57	415.81	43.23	1,591.30	1,119.58	42.43
PBIDT (Excluding OI)	403.22	237.84	69.53	1,074.19	341.47	214.58
Consolidated Net Profit	113.07	58.71	92.59	307.72	-93.79	-
PBIDTM% (Excluding OI)	67.70	57.20	18.36	67.33	30.48	120.90
PATM%	18.98	14.12	34.42	19.29	-8.37	-
Equity	110.04	82.80	32.90	110.04	82.80	32.90
EPS (Rs.)	11.23	7.41	51.55	27.96	-11.33	-

*Source: Company, Ace Equity, AUM Research

Industry Overview

Microfinance Loan Portfolio In INR Cr



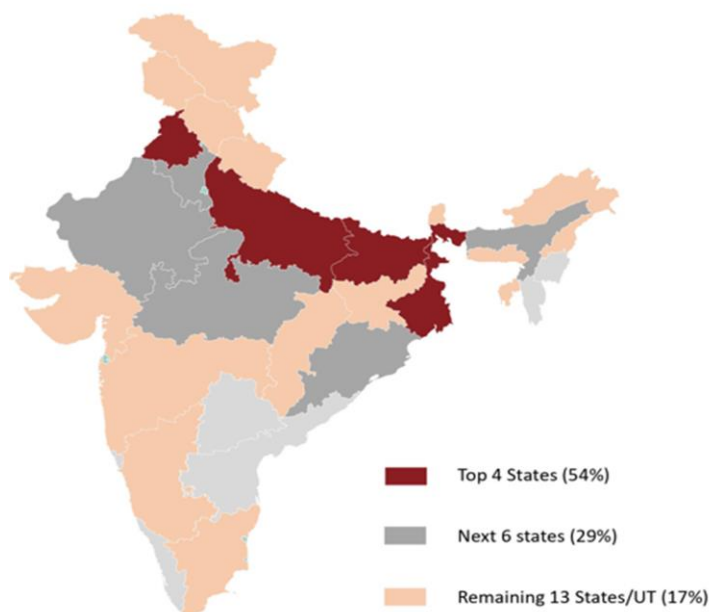
*Source: mfinindia.org, AUM Research

- **Overview:-** 91 NBFC-MFIs are the largest provider of micro-credit with a loan amount outstanding of Rs 1,47,289 Cr, accounting for 39.3% to total industry portfolio. 13 Banks hold the second largest share of portfolio in micro-credit with total loan outstanding of Rs 1,18,846 Cr, which is 31.6% of total micro-credit universe. SFBs (Small Finance Banks) have a total loan amount outstanding of Rs 73,118 Cr with total share of 19.4%. NBFCs account for another 9.1% and Other MFIs account for 0.5% of the universe.
- **Regional distribution:-** In terms of regional distribution of portfolio, East & Northeast and South account for 63% per cent of the total portfolio. Bihar is the largest state in terms of portfolio outstanding followed by Tamil Nadu and Uttar Pradesh.
- **NBFC-MFI's:-** AUM of NBFC-MFIs stood at INR 1,26,053 Cr as on June 30, 2023, a 41.6 percent YoY rise as compared to INR 89,005 Cr as on June 30, 2022.
- **Network:-** As on June 30, 2023, NBFC-MFIs, on an aggregated basis, have a network of 17,706 branches with 1,56,093 employees.
- **Expected growth in FY24:-** It is estimated that the industry may record healthy loan growth of about 28% in FY24 for NBFC-MFIs.
- **Removal of lending cap by RBI:-** The removal of the lending rate cap by the Reserve Bank of India (RBI) has enabled MFIs to engage in risk-based pricing, which has boosted net interest margins (NIMs) and, in turn, increased returns on total assets (RoTA). The net interest margins of NBFC-MFIs increased to 10.1% in FY23, when compared with 9% in FY21 and FY22.
- **Credit Costs:-** Credit costs have declined from their peak in FY21 but remain higher than pre-Covid levels, with a portion of the restructured book slipping into NPA. NIMs will continue to see improvements, resulting in RoTA rising to about 3.8% for FY 2024, aided by controlled credit costs of about 2.5% for the same year.
- **Asset quality:-** Asset quality, although on an improving trend, still remains moderate when compared with the pre-Covid level owing to additional slippages arising from the restructured portfolio.
- **Capital raising:-** In terms of capital structure, NBFC-MFIs have managed to raise about Rs 3,000 Cr of equity in FY23, when compared with Rs 1,500 Cr and Rs 1,430 Cr in FY21 and FY22, respectively, indicating a renewed interest from investors.
- **Demographic profile:-** Lending in rural India rose, with the proportion of rural clientele reaching 74% in FY23. Further, women borrowers to microfinance have remained significant, comprising about 98% of the total clientele of MFIs.
- **Areas of operation:-** MFIs were active in various kinds of credit-plus activities in their area of operation. This included activities in health, education, water and sanitation, and other community development programmes.
- **Technological Challenges:-** The adoption of technology in microfinance has been uneven. While some MFIs have embraced digital tools for operations and transactions, others face challenges in implementing and adapting to technological changes, limiting their efficiency.

Company Overview

	SCNL	Sating Housing Finance	Satin Finserv
Product Features	MFI	Housing Finance	MSME
Start Date	May-08	Feb-18	Mar-19
Ticket Size Range	Upto Rs 80,000	Rs 1,00,000 - Rs 40,00,000	Rs 1,00,000 - Rs 10,00,00,000
Tenure	6 - 30 Months	24 -240 Months	12 - 120 Months
Frequency Of Collection	Bi-Weekly	Monthly	Monthly/Quarterly
No. Of States / UT	24	4	11
No. Of Branches	1,165	38	33
AUM In Rs Cr	9,505	607	296
No. Of Loan Accounts	33,05,820	6,512	17,830
Avg. Ticket Size in 9MFY24	Rs 46,000	Rs 12,05,000	Rs 1,54,000

Presence across 24 States and UTs



97,000

No. of Villages

1,386

No. of Branches

419

No. of Districts

97%

Districts with <1% exposure

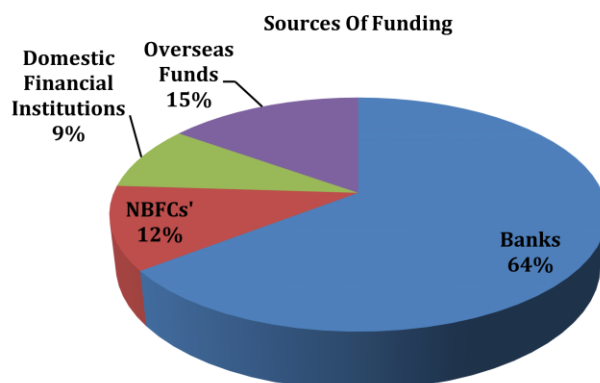
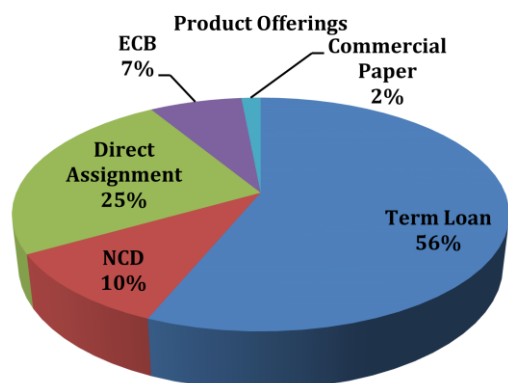
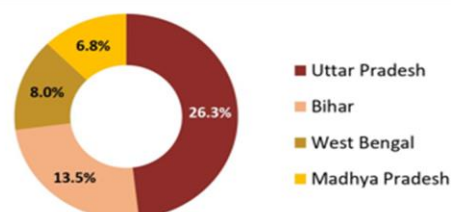
92

No. of Regional Offices

3 Lacs

No. of Centres

Top 4 States



Rationale For Investment

1. Strong loan growth in the MFI segment

- **AUM Growth:-** The AUM of SCNL's standalone MFI segment has grown from Rs 7,275 Cr in FY21 to Rs 9,811 Cr at the end of December 2023. The management is confident of growing the book by 25%+ YoY till FY28E.
- **Focus on the MFI industry as a whole:-** The microfinance industry has witnessed an upward trajectory, fueled by the rising demand for financial services from low-income households and micro-enterprises. The adoption of digital technology has played a vital role in expanding its reach to financially underserved regions and fostering further growth. Despite the challenges posed by the pandemic and the implementation of a new regulatory framework, the microfinance industry has seen a shift in market share. Non-Banking Financial Companies-Microfinance Institutions (NBFC-MFIs) have taken the lead in lending to the economically weaker sections, surpassing banks for the first time in four years with a portfolio share of 39.7%, Banks at 34.2% and Small Finance Banks (SFBs) at 16.6% at the end of FY23.
- **SCNL's loan growth has surpassed what it had previously guided:-** SCNL's growth has surpassed the company's guided range of 25%. It is expecting to focus on new loans instead of top-up loans to augment the overall client base.

2. Improvement in profitability metrics

- **Strong turnaround in FY24:-** SCNL saw an improvement in its consolidated profitability metrics in FY24, after witnessing weak profitability in the past three fiscals due to the pandemic-induced impact on its operations and asset quality. It reported a consolidated PAT of Rs. 308 Cr in 9MFY24. It has reported a loss of Rs 14 Cr in FY21 and PAT of Rs 21 Cr and Rs 5 Cr in FY22 & FY23 respectively. The improvement in the profitability in FY24 was on account of the increase in the NIM, driven by higher yields and lower credit costs with the gradual improvement in the asset quality indicators.
- **Healthy RoA:-** SCNL has reported RoAs of -0.18, 0.53 and 3.54 for FY21, FY22 & FY23 respectively at the standalone level. At the end of 9MFY24, this witnessed a significant improvement to 4.45%.
- **Healthy CRAR:-** CRAR stood at 28.7% at the end of December 2023 which is well above the regulatory requirement of 15%.
- **Adequate liquidity:-** At the end of December 2023, SCNL has a liquidity of Rs 1,800 Cr.

3. Ability to raise capital in a timely manner

- **Raising of equity & QIP:-** SCNL has demonstrated its ability to raise capital in a timely manner. It had raised equity of around Rs. 88 Cr in H1 FY2024 and Rs. 250 Cr via a QIP in December 2023. This is expected to support the Group's envisaged growth and provide cushion for the absorption of any further credit losses.
- **Ability to raise capital even during tough times:-** SCNL had undergone 15 rounds of capital raising since 2008. Till date it has raised Rs 1,537 Cr out of which Rs 595 Cr was raised post Covid-19.

4. Diversified funding profile

- **Steady improvement in funding profile:-** SCNL has a well-diversified funding profile comprising multiple lenders. Its standalone funding profile has improved steadily with term loans from banks comprising 64%, NBFCs 12%, Domestic Financial Institutions 9% and Overseas Funds 15% at the end of 9MFY24.

5. Better collection efficiency in SCNL's new portfolio

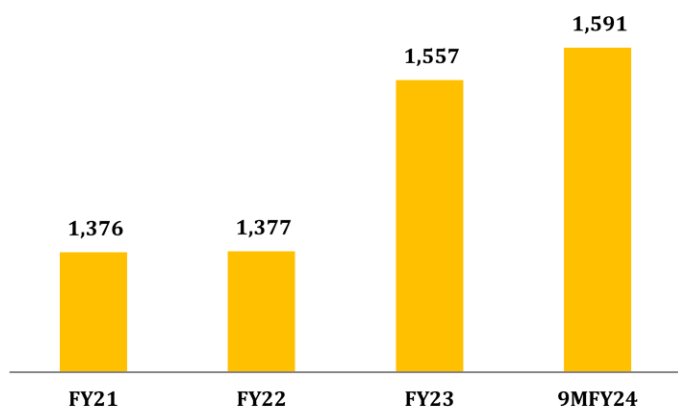
- **New portfolio performing better than industry standards:-** The new portfolio which originated from Jul'21 onwards is performing exceptionally well. The same constitutes about 94% of the on-book MFI portfolio, with (Portfolio at Risk) PAR 1 at 1.5% and PAR 90 at 0.7%, which is better than the industry standards as reported by CRIF Highmark (One of India's leading RBI-Licensed Credit Bureau). SCNL has continuously endeavored to strengthen underwriting processes. SCNL has strengthened its underwriting and collection processes post COVID by setting up a specialized collections team that focuses 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.
- **Reduction in GNPA's:-** SCNL has significantly reduced on-book GNPA's from 3.28% at the end of FY23 to 2.40% at the end of 9MFY24 at the standalone level amounting to Rs 175 Cr.
- **Adequate provisioning:-** SCNL has sufficient on-book provisions amounting to Rs 146 Cr at the end of December 2023 which is 2% of on-book portfolio. Provision required as per RBI Norms is Rs 117 Cr.
- **Improvement in collections:-** During 9MFY24, collection against write-offs was Rs.36 Cr. Gross cumulative collection efficiency for 9MFY24 stood at 99%.

6. Upgrading of credit ratings

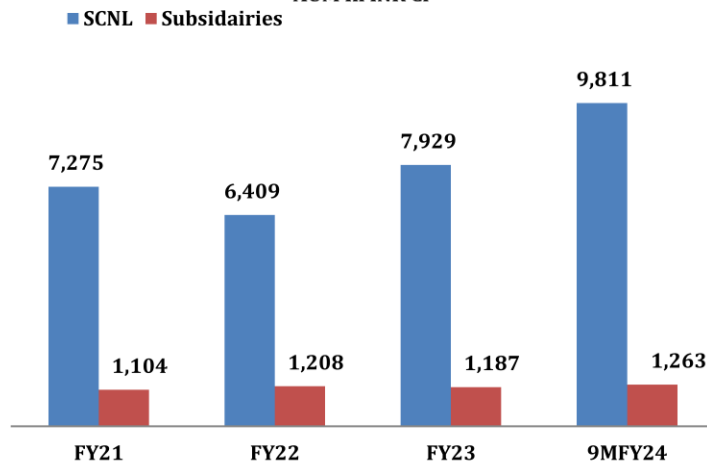
- **Rating upgrade by ICRA:-** SCNL has received an upgrade in its credit rating by ICRA for the Long-Term Bank Facilities, Sub-debt, and NCDs from A- (Stable) to A (Stable). This upgrade will help to decrease the cost of funds going ahead thus aiding improvement in the NIM. SCNL remains confident of maintaining margin at a double-digit level.

Financial Metrics

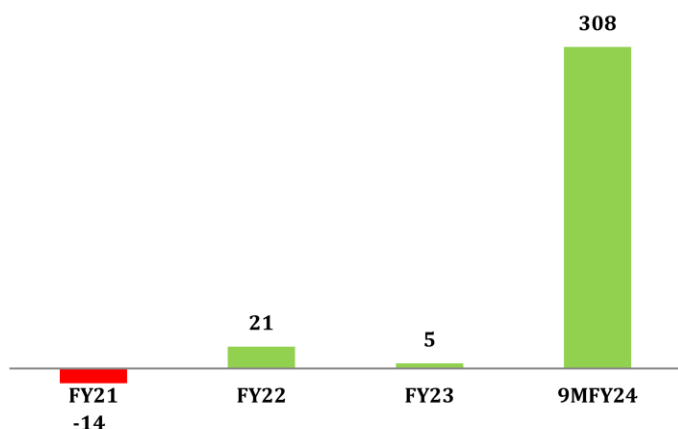
Consolidated Operating Income In INR Cr



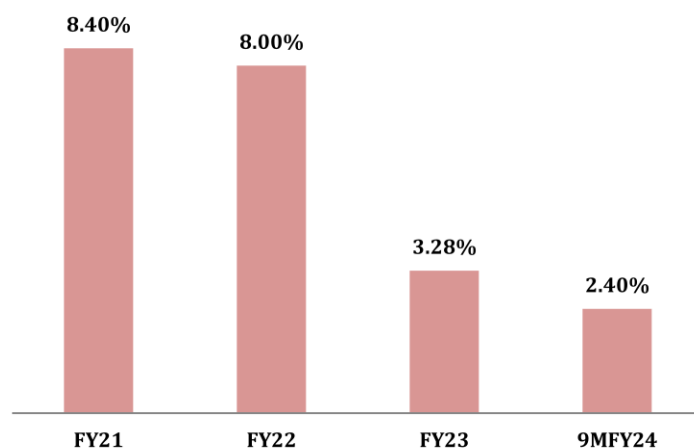
AUM In INR Cr



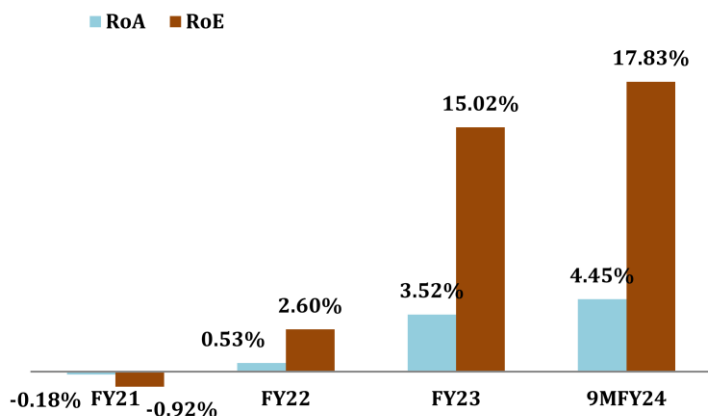
Consolidated PAT In INR Cr



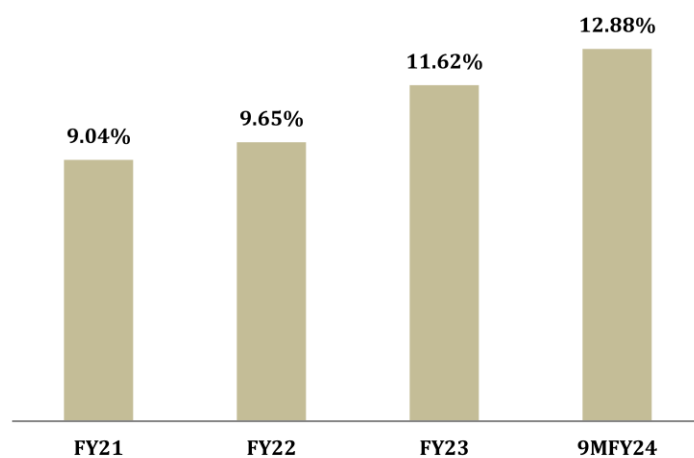
GNPA%



Return Ratios



Net Interest Margin



Source: Company, Ace Equity, AUM Research

Financials

Consolidated Quarterly Results (Value in Rs. Crs)						
Particulars	Q3FY24	Q3FY23	Var%	9MFY24	9MFY23	Var%
Net Sales & Other Operating Income	595.57	415.81	43.23	1,591.30	1,119.58	42.43
Total Expenditure	192.35	177.97	8.08	521.33	778.79	-33.06
PBIDT (Excl OI)	403.22	237.84	69.53	1,074.19	341.47	214.58
Other Income	0.71	0.15	373.33	2.96	1.68	76.19
Operating Profit	403.93	237.99	69.73	1,077.15	343.15	213.90
Interest	246.90	155.11	59.18	649.07	343.15	41.47
PBDT	157.03	82.89	89.44	428.08	-115.68	-
Depreciation	5.85	3.90	50.00	16.27	10.58	53.78
PBT	151.18	78.98	91.42	411.81	-126.26	-
Tax	38.11	20.27	88.01	104.09	-32.47	-
Net Profit	113.07	58.71	92.59	307.72	-93.79	-
Equity	110.04	82.80	32.90	110.04	82.80	32.90
EPS (Rs.)	11.23	7.41	51.55	27.96	-11.33	-

Consolidated Income Statement (Value in Rs. Crs)			
Particulars	FY23	FY22	FY21
Operating Income	1,557.29	1,377.05	1,375.86
Total Expenditure	1,111.35	700.15	741.07
Operating Profit (Excl OI)	445.94	676.90	634.79
Other Income	194.43	4.09	8.51
Operating Profit	640.37	680.99	643.30
Interest	616.73	630.72	637.97
PBDT	18.39	16.10	15.08
Depreciation	5.24	34.18	-9.75
Profit Before Tax	1,111.35	700.15	741.07
Provision for Tax	0.43	13.48	4.23
Net Profit	4.81	20.70	-13.98
EPS (Rs.)	0.57	2.78	-2.10

*Source: Company, Ace Equity, AUM Research

April 02, 2024

Consolidated Balance Sheet (Value in Rs. Crs)			
Particulars	FY23	FY22	FY21
EQUITY AND LIABILITIES			
Share Capital	84.80	74.59	66.47
Share Warrants & Outstandings	29.27	50.00	2.18
Total Reserves	1,514.06	1,457.26	1,417.52
Shareholder's Funds	1,628.12	1,581.85	1,486.16
Secured Loans	4,127.17	4,304.39	5,330.70
Unsecured Loans	624.33	710.30	638.35
Deferred Tax Assets / Liabilities	-88.57	-82.54	-52.19
Long Term Provisions	9.34	9.82	16.43
Total Non-Current Liabilities	4,672.27	4,941.98	5,933.29
Trade Payables	20.60	29.71	33.64
Other Current Liabilities	280.26	290.37	326.47
Short Term Borrowings	1,159.75	728.83	212.08
Short Term Provisions			0.88
Total Current Liabilities	1,460.60	1,048.90	573.06
Total Liabilities	7,760.99	7,572.73	7,992.52
ASSETS			
Loans	6,328.86	5,308.42	5,811.16
Gross Block	202.56	192.08	197.43
Less: Accumulated Depreciation	80.25	73.25	66.16
Net Block	122.32	118.83	131.27
Capital Work in Progress	-	0.18	3.65
Assets In Transit	6.64	6.98	-
Non Current Investments	61.76	47.97	0.01
Long Term Loans & Advances	3.74	5.69	6.33
Other Non Current Assets	12.27	24.19	14.99
Total Non-Current Assets	6,535.58	5,512.27	5,967.40
Currents Investments	-	0.59	0.58
Sundry Debtors	5.39	2.76	19.46
Cash and Bank	1,114.36	2,001.94	1,958.33
Other Current Assets	57.97	43.08	38.66
Short Term Loans and Advances	47.69	12.08	8.11
Total Current Assets	1,225.41	2,060.46	2,025.13
Net Current Assets (Including Current Investments)	-235.18	1,011.56	1,452.06
Total Current Assets Excluding Current Investments	1,225.41	2,059.87	2,024.55
Total Assets	7,760.99	7,572.73	7,992.52

*Source: Company, Ace Equity, AUM Research

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