

Satin Creditcare Network Ltd. | BUY

Analyst Day 2023 - Strengthening the core

Satin Creditcare Network Ltd (SCNL or Satin), at its Analyst Day, exuded confidence w.r.t delivering continued growth across asset segments while maintaining strong asset quality. Mgmt indicated that microfinance portfolio originated post Jul'21 continues to exhibit asset quality far better than industry levels (PAR1/ PAR90 at 0.9% /0.5% for Satin vs. 4.4%/ 2.6% for other NBFC MFIs). Mgmt believes its reinvigorated focus on collections, revamped customer selection model (which includes score cards) and diversification have helped them achieve strong qualitative results. As indicated earlier (**Satin_IC**), Satin's write-offs have been meaningfully lower than industry through Covid19-impacted period. Mgmt has guided for RoAs of c.4.5% over the next 2-3 years (RoE of 18-20% by FY25E) with benefits coming through low credit costs and operating leverage and expects to deliver c.25% growth in AUMs over the medium term. The MSME and Affordable housing subsidiaries are scaling up well and are expected to reach 25% of portfolio (vs. 12% currently) over the medium term. Satin has also recently strengthened its mgmt team with leadership positions across MSME lending, finance by hiring professionals with rich experience across reputed organizations. Satin's profitability is increasingly becoming consistent, which, in turn should drive rerating of its valuation multiples in our view. We maintain our BUY rating with an unchanged target price of INR 320.

- Asset quality focus and efficiency initiatives showing results:** Over the last few years, Satin has reengineered its processes to inculcate greater focus on collections (99.6% CE for 1QFY24), quality of customer onboarding (customer score card) and greater efficiency (branch and employee productivity has improved meaningfully). This has resulted into Satin's Covid19 asset quality performance being materially better than earlier envisaged and also relatively better than most peers. The portfolio originated after Jul'21 has PAR1/PAR90 of 0.9%/0.5% which is well ahead of industry. This is also aided by significant investments into technology backend and data analytics, revised incentive structures for employees as well as diversification across states (share of top 4 states 54% vs c.70% in FY18 and 96% of districts forming <1% of portfolio). We believe this bodes well continued stability in Satin's profitability profile over the medium term.
- Sustained growth with increasing profitability:** Satin expects to deliver c.25%+ growth in the microfinance portfolio over the medium term (current AUMs at c.INR84bn). Led by greater operating leverage and sustained lower credit costs, mgmt intends to deliver RoAs of 3.5-4% by FY25 and >4.5% thereafter. Credit costs are expected at 1.5-1.75% for FY25E (while FY24 is likely to be lower).
- Subsidiaries scaling up:** Satin's subsidiaries namely, Satin Finserv (provides secured MSME lending with avg tkt size of c.INR150k) and Satin Housing Finance (home loans with avg tkt size of c.INR1.5m for affordable housing and c.INR0.3m for micro housing) are set scale up over the next 2-3 years. Both subsidiaries should deliver growth (50%+ CAGR given small size) over the medium term and will likely form ~25% of the consolidated portfolio of Satin. Asset quality performance in both entities remains quite strong.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	320
Upside/(Downside)	49.9%
Previous Price Target	320
Change	0.0%

Key Data – SATIN IN

Current Market Price	INR213
Market cap (bn)	INR21.3/US\$0.3
Free Float	43%
Shares in issue (mn)	84.8
Diluted share (mn)	
3-mon avg daily val (mn)	INR191.1/US\$2.3
52-week range	232/110
Sensex/Nifty	67,519/20,103
INR/US\$	83.0

Price Performance

%	1M	6M	12M
Absolute	-1.4	65.6	56.7
Relative*	-4.5	41.2	39.1

* 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)	-98.4	74.6	364.7	5.1	3.9
BV	224	205	189	213	267
BV (YoY) (%)	-20.2%	-8.1%	-8.2%	13.2%	25.2%
P/BV (x)	0.93	1.01	1.10	0.97	0.77

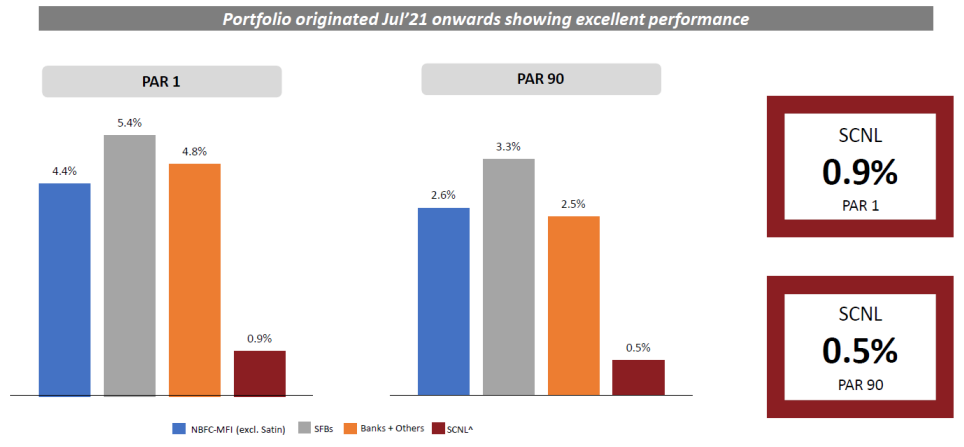
Source: Company data, JM Financial. Note: Valuations as of 14/Sep/2023

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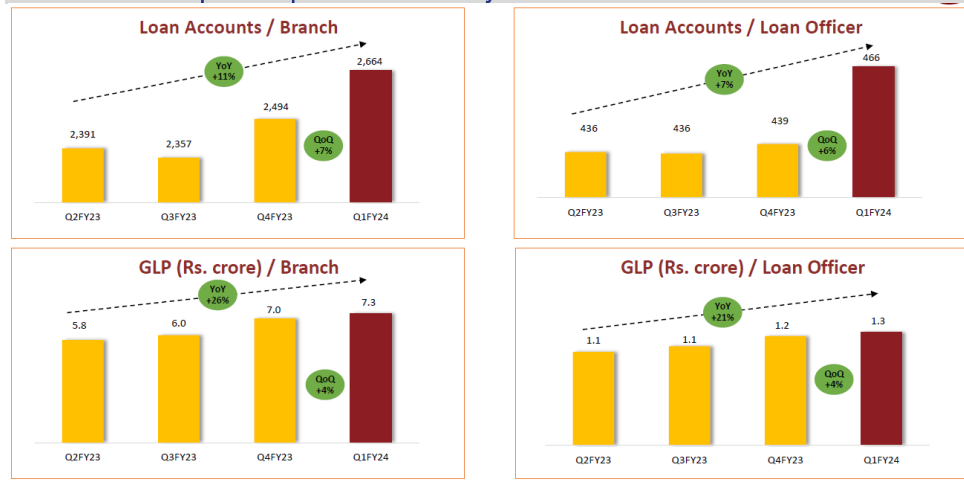
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Exhibit 1. Satin: Asset quality of portfolio originated after Jul'21 (As of May'23)



Source: Company

Exhibit 2. Satin: Improved operational efficiency



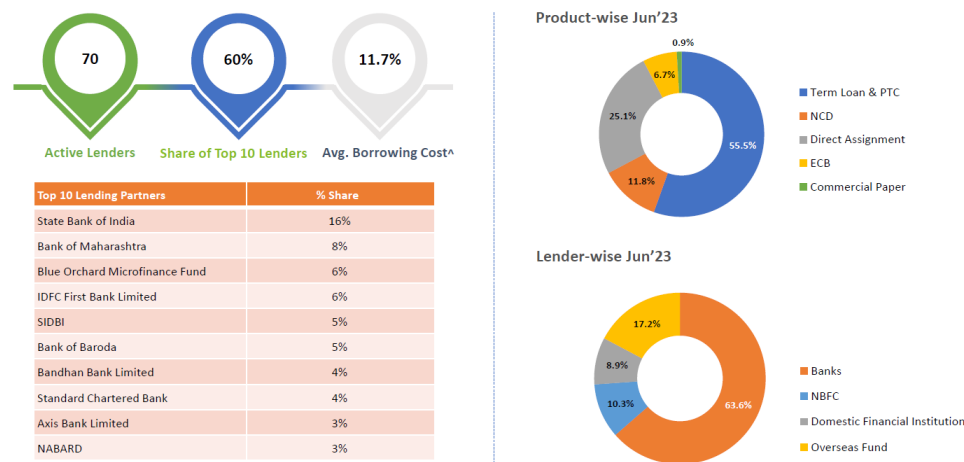
Source: Company

Exhibit 3. Satin: Operating leverage expectations



Source: Company

Exhibit 4. Satin: Diverse liability profile



Source: Company

Exhibit 5. Satin: Outlook for next 5 years

Particulars	Jul'22 to Jun'23	FY24E	FY25E	FY26E – FY28E
GLP Growth (%)	30%	25%+	25%+	25%+
NIM (%)	12.48%	12.1% - 12.5%	12.25% - 12.75%	12.25% - 12.75%
Cost-to-Income Ratio (%)	49.37%	45% - 50%	42% - 48%	40% - 45%
Operating cost/AUM (%)	6.13%	5.60% - 5.75%	5.30% - 5.50%	5.00% - 5.25%
Credit Cost (%)	1.12%	1.25% - 1.5%	1.5% - 1.75%	1.5% - 1.75%
RoA (%)	3.66%	3.50% - 4.00%	4.25% - 4.75%	4.50% - 5.00%
RoE (%)	15.77%	17.5% - 19.0%	18.0% - 20.0%	20.0% - 23.0%
Capital Adequacy	25.0%	22.0% - 25.0%	22.0% - 25.0%	>20%
Debt/Equity	3.0x	3.5x - 4.0x	3.5x - 4.0x	<4.5x

Source: Company

Exhibit 6. Satin Finserv Ltd (SFL): Outlook for next 5 years

Particulars	Q1FY24 (Actual)	FY24E	FY25E	FY26E – FY28E
GLP Growth (%)	45%	60%	70%	50%+
NIM (%)	12.40%	13.50%	12.75%	13.50% - 15.50%
Cost-to-Income Ratio (%)	89%	85%	75%	60% - 45%
Operating cost/AUM (%)	11.10%	11.60%	9.50%	8.00% - 7.00%
Credit Cost (%)	1.00%	1.00%	1.15%	1.40% - 1.80%
RoA (%)	1.25%	1.30%	2.40%	3.75% - 5.00%
RoE (%)	3.00%	3.30%	7.80%	15.00% - 22.00%
Capital Adequacy	41%	45%	30%	Above 25%
Debt/Equity	1.3x	1.4x	2.75x	3x-4x

Source: Company

Exhibit 7. Satin Housing Finance Ltd (SHFL): Outlook for next 5 years

Particulars	Q1FY24 (Actual)	FY24E	FY25E	FY26E – FY28E
GLP Growth (%)	6.64%	50%+	50%+	50%+
NIM (%)	5.44%	7.00% - 7.25%	7.00% - 7.25%	7.00% - 7.25%
Cost-to-Income Ratio (%)	84.8%	70.0% - 75.0%	65.0% - 70.0%	50.0% - 55.0%
Operating cost/AUM (%)	5.41%	5.00% - 5.25%	4.75% - 5.00%	4.00% - 3.00%
Credit Cost (%)	0.00%	0.50% - 0.65%	0.50% - 0.65%	0.50% - 0.65%
RoA (%)	0.76%	1.40% - 1.60%	1.80% - 2.00%	2.50% - 3.00%
RoE (%)	2.59%	5.00% - 5.50%	7.00% - 7.50%	10.50% - 15.00%
Capital Adequacy	46.0%	45.0% - 50.0%	35.0% - 40.0%	>30.0%
Debt/Equity	2.46x	2.5x - 2.8x	3.0x - 3.25x	3.25x - 4.00x

Source: Company

Financial Tables (Standalone)

Income Statement					
	(INR mn)				
Y/E March	FY21A	FY22A	FY23A	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	FY23A	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	122,287
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	122,287

Source: Company, JM Financial

Key Ratios					
Y/E March	FY21A	FY22A	FY23A	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	FY23A	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	FY23A	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)	-98.4	74.6	364.7	5.1	3.9
BV (INR)	224	205	189	213	267
BV (YoY) (%)	-20.2%	-8.1%	-8.2%	13.2%	25.2%
P/BV (x)	0.93	1.01	1.10	0.97	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

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
30-Jul-23	Buy	320	

Recommendation History

APPENDIX I

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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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