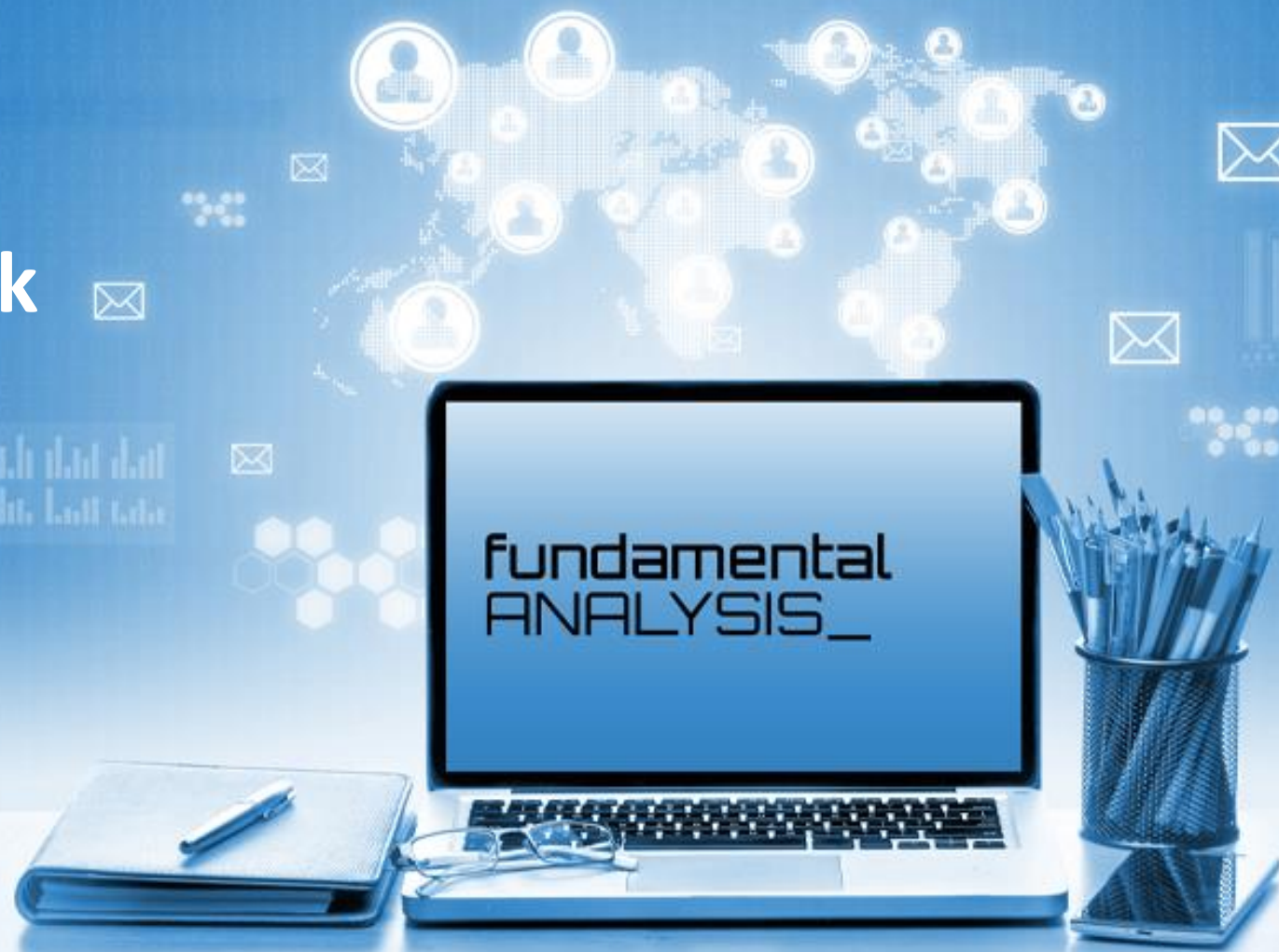


Stock Update Satin Creditcare Network Ltd.

August 10, 2023





Satin Creditcare Network Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
BFSI – MFI	Rs 222	Buy in Rs 220-225 band & add on dips in Rs 194-198 band	Rs 244	Rs 269	2-3 quarters

HDFC Scrip Code	SATCREEQNR
BSE Code	539404
NSE Code	SATIN
Bloomberg	SATIN IN
CMP Aug 9, 2023	222.1
Equity Capital (Rs cr)	99.6
Face Value (Rs)	10
Equity Share O/S (cr)	10.0
Market Cap (Rs cr)	2034
Adj. Book Value (Rs)	204.8
Avg. 52 Wk Volumes	414,500
52 Week High (Rs)	230.8
52 Week Low (Rs)	102.4

Share holding Pattern % (Jul, 2023)	
Promoters	40.0
Institutions	9.8
Non Institutions	50.2
Total	100.0



**HDFCsec Retail research
stock rating meter**

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst

Atul Karwa

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Our Take:

SCNL is one of the largest players in the MFI industry with a wide geographical reach. The company has cleaned up its balance sheet and strengthened its risk evaluation criteria and underwriting practices resulting in sharp reduction in delinquencies. After remaining cautious over the last few quarters, it has resumed its lending driving AUM growth. Capital raising plans of the company has completed and capital adequacy strengthened. Recoveries from written off accounts would support PAT growth. The microfinance industry has witnessed strong growth and with the improving economic scenario, we expect the momentum to continue. The management has guided for AUM growth of 25% and RoA of over 4% for FY24.

On June 21, 2023, we had released a Stock Update report ([Link](#)) with a recommendation to 'Buy in Rs 171-175 band and add on dips in Rs 145-149 band' for base case fair value of Rs 194 and bull case fair value of Rs 207 over next 2-3 quarters. Both the targets were achieved within the given time frame.

Valuation & Recommendation:

Microfinance sector is seeing revival in growth and fall in delinquencies. SCNL currently trades at 0.9x FY25E P/ABV which is attractive in our view, given the potential in the coming years. We have valued the MFI at 1x FY25E ABV for a base case target of Rs 244 and 1.1x FY25E ABV for a bull case target of Rs 269 over next 2-3 quarters. Investors can buy the stock at in the band of Rs 220-225 and add on dips in Rs 194-198 (0.8x FY25E ABV). We have valued the stock on standalone basis as the size and contribution from subsidiaries is still not meaningful.

Financial Summary

Particulars (Rs cr)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY22	FY23	FY24E	FY25E
NII	209	129	61.9	172	21.6	569	584	735	901
PPoP	130	394	-67.0	139	-6.3	235	743	380	481
PAT	86	60	42.8	94	-9.0	40	264	205	270
EPS (Rs)	9.8	8.1	20.9	11.1	-12.4	5.4	31.2	20.7	27.2
P/E (x)						41.1	7.1	10.7	8.2
P/ABV (x)						1.1	1.0	1.0	0.9
RoAA (%)						0.5	3.5	2.5	2.7

(Source: Company, HDFC sec)



Q1FY24 Result Update

SCNL reported another strong quarter of growth in Q1FY24 driven by increased disbursement and higher AUM growth. NII increased by 62% YoY to Rs 209cr as yields expanded ~100bps YoY to 20.5% while cost of funds contracted ~100bps to 8.35%. Standalone AUM was up by 31% YoY to Rs 8367cr aided by highest Q1 disbursements in last 5 years of Rs 1980cr. Its average ticket size of MFI lending for the quarter stood at Rs 43,000. NIM expanded ~210bps YoY to 12.1%. PAT grew by 43% YoY to Rs 86cr as Opex-AUM ratio declined to 5.8% from 6.1% in previous quarter. ROA stood at 4.3%, which was 3.3% in the previous year and ROE at 25% as compared to 22.6%.

The new portfolio originated from July 2021 onwards constituting 96% of on-book MFI portfolio is displaying a remarkable performance, with PAR 1 at 0.9% and PAR 90 at 0.5%. Annualized credit costs stood at 0.7% as the stressed portfolio has largely been provided for. SCNL carries sufficient on-book provisions amounting to Rs 103cr as on Q1FY24, which is 1.6% of on-book portfolio. GNPA improved to 2.5% from 3.3% in Q4FY23.

During the quarter, the company added around 2.3 lakhs new clients and its customer base grew by 17% YoY. The company has successfully completed the preferential allotment of Rs 225cr via the issuance of equity shares and fully convertible warrants after receiving the last tranche of Rs 50cr in July 2023 from Florintree Ventures LLP. ICRA has also revised the rating outlook of the company to A- stable from A- negative.

The subsidiaries are doing well with SHFL/SFL reporting PAT of Rs 0.9/1.1 crore against Rs 0.3/1.0 crore in Q1FY23.

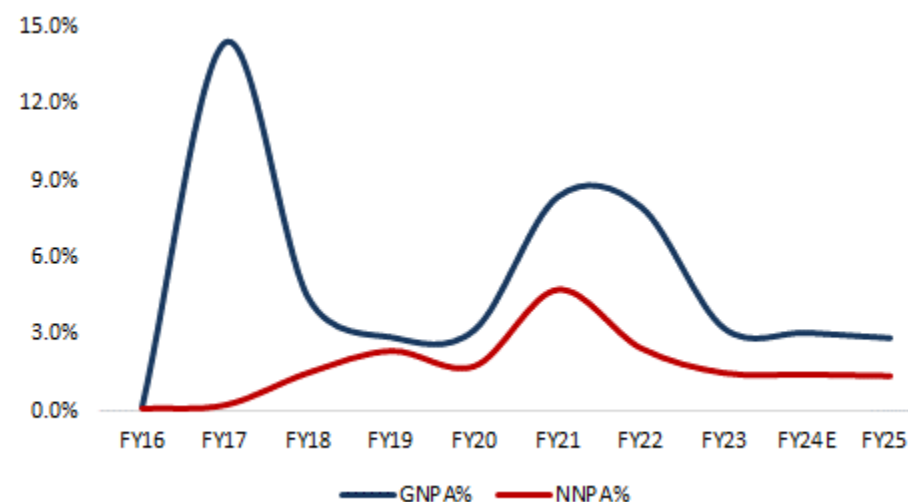
Recent Developments

Credit costs expected to remain benign

After taking significant provisioning in the last 4 years, credit costs have moderated for the company. SCNL has put in stronger risk evaluation criteria and the post June 2021 portfolios is exhibiting low NPAs of 0.5%. SCNL recovered Rs 48cr from written-off accounts in FY23 and expects to recover Rs 50cr in FY24. In Q1FY24 it has recovered Rs 9cr. Credit costs stood at 0.7% in Q1FY24. GNPA improved to 2.5% from 3.3% at the end of FY23. The company has sufficient on-book provisions amounting to INR 103 crores as on Q1FY'24, which is 1.6% of on-book AUM. Consequently, we believe credit costs to remain benign in the near term



Asset quality to improve further



(Source: Company, HDFC sec)

Sustainable return ratios

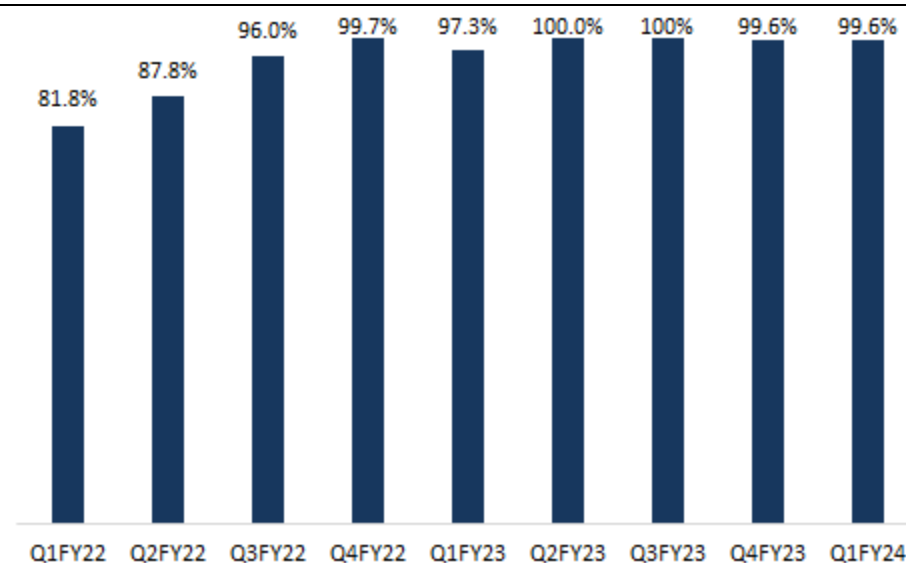
Return ratios of the company have been improving in the recent quarters as higher AUM growth and improving cost-income ratio has resulted in higher profitability. RoA/RoE stood at 4.3%/25.0% for Q1FY24 as compared to 3.5%/26.6% for FY23. The management has indicated these return ratios are sustainable.

Collection efficiencies remain strong

The last few quarters have seen collection efficiencies of ~100% indicating the post Covid portfolio remains strong. Over the past year, collection efficiencies have improved significantly for SCNL with many of the arrears also getting repaid. Post the write-off, the company is left with a clean portfolio and it should be able to maintain a high collection efficiency. The top 4 states accounting for ~54% of portfolio have also witnessed sharp improvement.



Improving trend in collection efficiencies



(Source: Company, HDFCsec)

Expanding geographical presence

In Q1FY24, SCNL opened a total of 27 branches as part of its endeavour of deepening financial inclusion for the emancipation of the bottom of pyramid. As of Jun'23, the standalone entity had 1096 branches and alongwith its subsidiaries it operated 1310 branches.

Risks & Concerns

High competition from existing and new players

Looking at the strong growth expectation in the microfinance industry, a slew of players have entered this segment. Entry of new players and expansion by the existing peers could increase competition leading to margin erosion.

Absence of dividend could deter some investors

SCNL has not paid dividend which could deter some investors looking for regular income.

Recent trend of loan waivers could result in asset quality deterioration

Microfinance sector is riddled with political interference. Many State Governments have announced loan waiver in the past which disturbs



the repayment cycle for the industry and the company.

High proportion of term loans.

SCNL has a high proportion of term loans in its borrowing, cost of which generally tends to be on the higher side. As the credit rating has improved, it has started accessing funds through low cost CPs and other instruments.

Delayed recovery in Assam

SCNL has an outstanding exposure of Rs 351cr in Assam off which Rs 94cr has turned NPA. As SCNL has entered into a MoU with the state, it is likely to recover most of these loans. Assam cabinet had approved relief to around 11 lacs microfinance borrowers, however recovery for the company could get delayed.

Company Background:

Satin Creditcare Network is one of India's largest Microfinance Institution (MFI) in terms of Gross Loan Portfolio operating out of Gurugram with a strong presence in North India. Starting its operations in 1990 as a provider of individual and small business loan and savings services to urban shopkeepers, it registered as an NBFC with the RBI in 1998 and was converted into an NBFC-MFI in 2013. SCNL offers a comprehensive bouquet of financial products focused on financial inclusion - MFI Segment and Non-MFI Segment (through its subsidiaries SHFL and SFL). Although present in 24 states its operations are majorly concentrated in UP, Bihar, MP and Punjab.

SCNL's business is primarily based on the joint liability group model of lending (JLG Model) for providing 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's clients are organized in customized groups and are provided with Compulsory Group Training (CGT) by the field staff of SCNL. After the training, a Group Recognition Test (GRT) is conducted successful completion of which leads to credit extension. The company does not require any collateral for advancing loans to the clients as the model works on the concept of social collateral. In 2008, the company started its group lending business with the JLG model, which constituted 88% of its portfolio as on March 31, 2023, with MSME loans constituting the balance AUM as on the same date.

MSME loans include unsecured loans of a ticket size of Rs 1-10 lakh for a period of 1-10 years and corporate loans to other MFIs of Rs 3-10cr. The operations of SCNL are spread across 24 states and UTs. As of FY23, SCNL was operating through 1,078 branches (consolidated 1287 branches), with around 28.3 lakh active borrowers (JLG and MSME), with the total AUM being Rs 7,929cr (consolidated Rs 9,115cr).

SCNL also has two subsidiaries, viz, Satin Housing Finance Limited (SHFL), and Satin Finserv Ltd (SFL). SHFL is a housing finance company (HFC) registered with the National Housing Bank (NHB), which undertakes extension of home loans and loan against property. Currently,



SHFL sources its business in the regions of Delhi-NCR, Uttar Pradesh, and Rajasthan. It commenced lending operations in February 2018 and has built AUM of Rs 505cr as on March 31, 2023. SFL is the newest subsidiary of the group, which commenced operations in March 2019 to foray into the MSME segment. In FY23, SCNL merged its business correspondence subsidiary Tarashna Financial Services with SFL. The AUM of SFL as on March 31, 2023, was Rs 682cr.

Subsidiaries

Satin Housing Finance Limited (SHFL)

SHFL was incorporated in Apr-2017 and successfully commenced its operations from Feb-2018. SHFL offers a suite of innovative and flexible Home Loan products to enable purchase, construction, extension and repair of affordable dwelling units. The company also provides Loan against Property with a clear focus on thin file clients and underserved sections of the society which are on the lowest and at midlevel of income pyramid. SHFL has its registered office in Azadpur (Delhi), and 30 branches. As of Q4FY23 the company had an AUM of Rs 505cr with negligible NPA. It reported an income of Rs 62cr in FY23 and a PAT of Rs 6cr against Rs 38cr and Rs 3cr respectively in FY22.

Satin Finserv Limited (SFL)

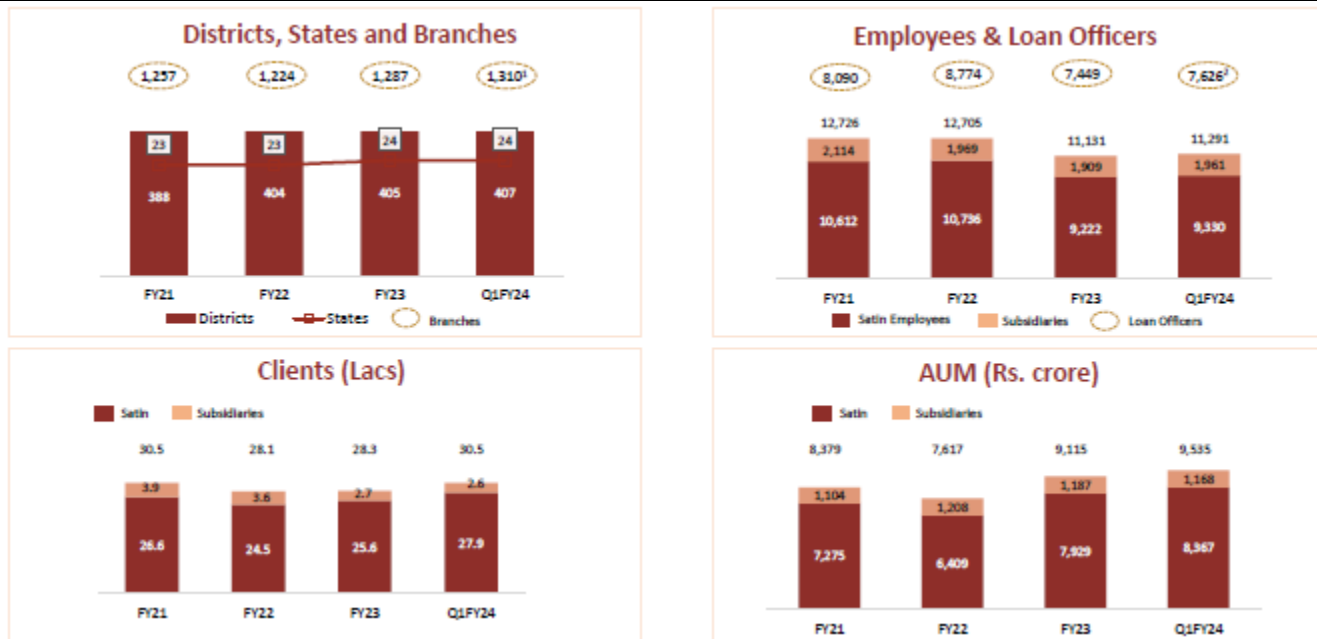
SFL was incorporated in Aug-2018 with the objective of providing Business loans to SME & MSME borrowers and to corporate borrowers. As of Q4FY23 the company had an AUM of Rs 682cr. GNPA stood at 4.1%. It reported an income of Rs 107cr in FY23 and a PAT of Rs 6cr against Rs 97cr and loss of Rs 20cr respectively in FY22.

Product Portfolio

	MFI Segment	Housing Finance	Business Correspondent Services	SME
Product features as on Jun'23	SCNL	SHFL	SFL	SFL
Start Date	May'08 (JLG)	Feb'18	May'12	Mar'19
Ticket Size Range	Upto Rs 75,000	Rs 1-40 lakh	Upto Rs 50,000 (JLG)	Rs 1 lakh to Rs 10 cr
Tenure	6 - 24 months	24 – 240 months	12 - 24 months	12 – 120 months
Frequency of Collection	Bi-weekly	Monthly	Bi-weekly	Monthly/Quarterly
No. of States/UTs	24	4	6	10
No. of Branches	1096	32	156	26
AUM (Rs cr)	7984	514	403	251
No. of Loan Accounts	29,19,243	5,666	2,42,024	12,415
Avg. Ticket Size for Q1FY24	Rs 43,000 (JLG)	Rs 9,60,000	Rs. 39,400	Rs. 1,53,000 (Retail)



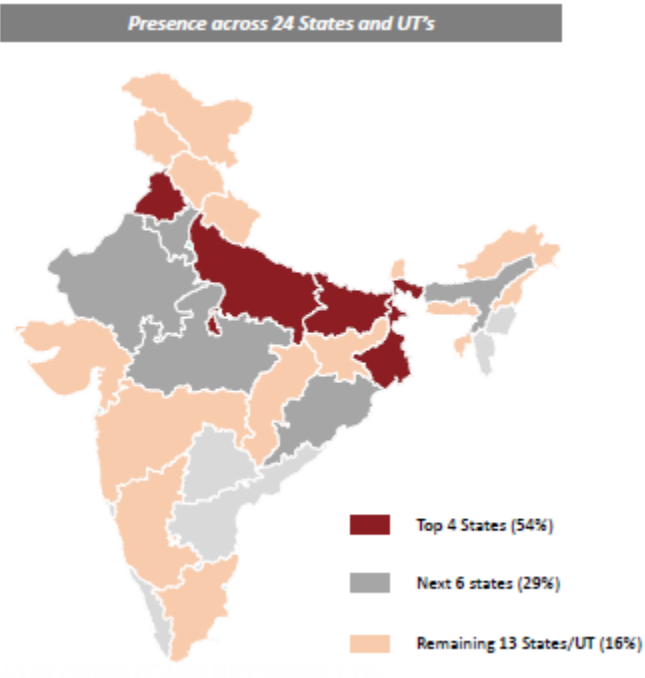
Key Operations Metrics



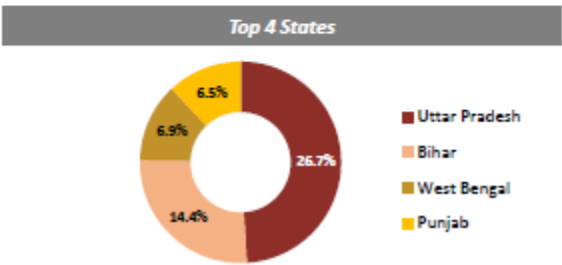
(Source: Company, HDFCsec)



Diversified Geographical presence



96,000	1,310
No. of Villages	No. of Branches
407	96.1%
No. of Districts	Districts with <1% exposure
80	3.0 Lacs
No. of Regional Offices	No. of Centres



(Source: Company, HDFCsec)



Financials

Income Statement

(Rs cr)	FY21	FY22	FY23	FY24E	FY25E
Interest Income	1117	1170	1160	1369	1645
Interest Expenses	618	602	576	635	744
Net Interest Income	499	569	584	735	901
Non interest income	156	92	601	138	144
Operating Income	655	660	1186	873	1045
Operating Expenses	390	426	442	492	565
PPoP	265	235	743	380	481
Prov & Cont	275	175	402	107	121
Profit Before Tax	-10	59	341	274	359
Tax	4	19	77	68	90
PAT	-14	40	264	205	270

Balance Sheet

(Rs cr)	FY21	FY22	FY23	FY24E	FY25E
Share Capital	66	75	85	99	99
Reserves & Surplus	1425	1532	1829	2137	2406
Shareholder funds	1491	1606	1914	2236	2506
Borrowings	6026	5463	5447	6303	7739
Other Liab & Prov.	358	306	284	446	393
SOURCES OF FUNDS	7875	7375	7645	8985	10638
Fixed Assets	90	81	91	99	104
Investment	283	336	748	825	995
Cash & Bank Balance	1863	1915	1029	1032	1077
Advances	5515	4897	5684	6878	8288
Other Assets	123	146	93	151	174
TOTAL ASSETS	7875	7375	7645	8985	10638

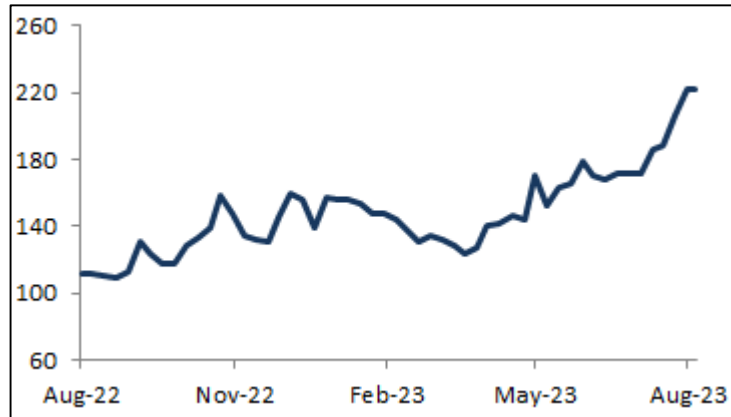
Ratio Analysis

Particulars	FY21	FY22	FY23	FY24E	FY25E
Return Ratios (%)					
Calc. Yield on adv	21.8	22.5	21.9	21.8	21.7
Calc. Cost of borr	10.8	10.5	10.6	10.8	10.6
NIM	9.8	10.9	11.0	11.7	11.9
RoAE	-0.9	2.6	15.0	9.9	11.4
RoAA	-0.2	0.5	3.5	2.5	2.7
Asset Quality Ratios (%)					
GNPA	8.4%	8.0%	3.3%	3.1%	2.6%
NNPA	4.8%	2.5%	1.5%	1.3%	0.9%
Growth Ratios (%)					
Advances	17.1	-11.2	16.1	21.0	20.5
Borrowings	11.4	-9.3	-0.3	15.7	22.8
NII	27.2	13.9	2.7	25.8	22.7
PPoP	-34.0	-11.6	216.6	-48.8	26.4
PAT	-108.7	LP	557.1	-22.3	31.3
Valuation Ratios (x)					
EPS	-2.0	5.4	31.2	20.7	27.2
P/E	-108.9	41.1	7.1	10.7	8.2
Adj. BVPS	184.3	199.1	215.7	216.1	245.1
P/ABV	1.2	1.1	1.0	1.0	0.9
Dividend per share (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
Other Ratios					
Cost-Income	59.5	64.4	37.3	56.4	54.0
Cost-Average Assets	5.2	5.6	5.9	5.9	5.8

(Source: Company, HDFC sec)



Price chart



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.



Satin Creditcare Network Ltd.

Disclosure:

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