Stock Update

Satin Creditcare Network Ltd.

June 21, 2023

RETAILRESEARCH

Satin Creditcare Network Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
BFSI – MFI	Rs 173	Buy in Rs 171-175 band & add on dips in Rs 145-149 band	Rs 194	Rs 207	2-3 quarters

HDFC Scrip Code	SATCREEQNR
BSE Code	539404
NSE Code	SATIN
Bloomberg	SATIN IN
CMP Jun 20, 2023	172.8
Equity Capital (Rs cr)	84.8
Face Value (Rs)	10
Equity Share O/S (cr)	8.5
Market Cap (Rs cr)	1474
Adj. Book Value (Rs)	215.6
Avg. 52 Wk Volumes	256,000
52 Week High (Rs)	189.9
52 Week Low (Rs)	84.9

Share holding Pattern % (Jun, 2023)	
Promoters	41.7
Institutions	18.6
Non Institutions	39.7
Total	100.0

* Refer at the end for explanation on Risk Ratings

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Our Take:

SCNL is one of the largest players in the MFI industry with a wide geographical reach. Post Covid the company has seen a strong improvement in its collection efficiencies and along with write-offs, it has cleaned up its balance sheet. After remaining cautious over the last few quarters, it has resumed its lending driving AUM growth. Focus on secured products should reduce NPA risk. Capital raise of Rs.225 cr in Feb 2022 (shares/warrants to promoters and external investors @Rs.81.25) has provided the company with sufficient growth capital. 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 3.5% for FY24.

On December 5, 2022, we had released Initiating Coverage report on the company (Link) with a recommendation to 'Buy in Rs 144-148 band & add more on dips in Rs 125-128 band' for base case fair value of Rs 167 and bull case fair value of Rs 188. Both our targets were achieved within the given timeframe.

Valuation & Recommendation:

SCNL has come out of challenging times. Now with the capital adequacy in place and advances and NII growth looking attractive, the stock seems attractive compared to its peers. Microfinance sector is seeing revival in growth and fall in delinquencies. SCNL currently trades at 0.7 FY25E P/ABV which is attractive in our view, given the potential in the coming years. We have valued the MFI at 0.8x FY25E ABV for a base case target of Rs 194 and 0.85x FY25E ABV for a bull case target of Rs 207 over next 2-3 quarters. Investors can buy the stock at in the band of Rs 171-175 and add on dips in Rs 145-149 (0.6x 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)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY22	FY23	FY24E	FY25E
NII	172	126	*36.7*	140	*23.3*	569	584	770	946
PPoP	139	77	*80.4*	128	*8.5*	235	743	384	510
PAT	94	60	*58.6*	55	*71.2*	40	264	212	295
EPS (Rs)	11.1	8.0	*39.5*	6.7	*67.2*	5.4	31.2	21.4	29.7
P/E (x)						32.0	5.5	8.1	5.8
P/ABV (x)						0.9	0.8	0.8	0.7
RoAA (%)						0.5	3.5	2.5	2.9

(Source: Company, HDFC sec)

Q4FY23 Result Update

SCNL reported an outstanding quarterly performance in Q4FY23 as it utilized its surplus cash to lend. NII increased by 37% YoY to Rs 172cr driven by 16% growth in interest income while interest expenses contracted by 2%. Standalone AUM was 24% YoY to Rs 7929cr aided by highest ever quarterly disbursements of Rs 2546cr. NIM expanded 207bps YoY to 13.6%. However, on a sequential basis NIM contracted 45bps. PAT grew by 59% YoY to Rs 94cr driven by 90bps reduction in Opex/AUM. ROA stood at 4.9%, which was 3.3% in the previous year and ROE at 20.3%, which was 15.5%.

Annualized credit costs stood at 0.6% as the company has taken significant provisioning against its Covid portfolio while collection efficiency on post Covid portfolio remains strong. SCNL carries sufficient on-book provisions amounting to Rs 119cr as on Q4FY23, which is 2.10% of on-book portfolio. GNPA improved to 3.3% from 3.9% in Q3FY23.

The subsidiaries are doing well with SHFL/SFL reporting PAT of Rs 3.3/1.9 crore against Rs 1.1/(2.7) crore in Q4FY22.

Key Triggers

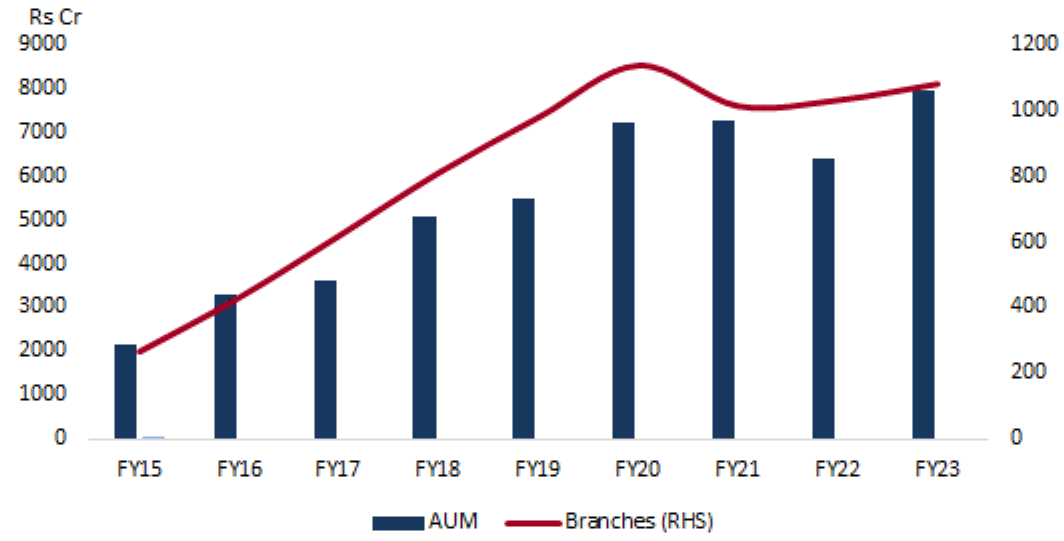
Strong AUM growth driven by pick up in disbursements

Disbursements were lower over the last couple of years on account of the pandemic and increased stress. The company wanted to remain conservative maintaining higher liquidity levels. Now the management is witnessing strong recovery of dues and huge pent up demand for microfinance. Consolidated disbursements increased by 67% YoY to Rs 8087cr in FY23 and in microfinance, disbursements grew 85% to Rs 7432cr. Going ahead, the management has guided for 25% plus AUM growth and a ROA of over 3.5% in FY24.

Expanding geographical presence

In FY23, SCNL opened a total of 67 branches and added 5,000 villages and a new state to its presence as part of its endeavour of deepening financial inclusion for the emancipation of the bottom of pyramid. As of Mar’23, the standalone entity had 1075 branches and alongwith its subsidiaries it operated 1287 branches.

AUM and Branches



(Source: Company, HDFC sec)

As SCNL expands its geographical presence, concentration is gradually reducing. UP which accounted for more than 50% of its portfolio in FY16 now commands a share of ~27% in FY23. The combined share of the top 3 states has decreased to ~48% in FY23 from over 74% in FY16. 96.0% of districts have <1% exposure

Limiting exposure per district

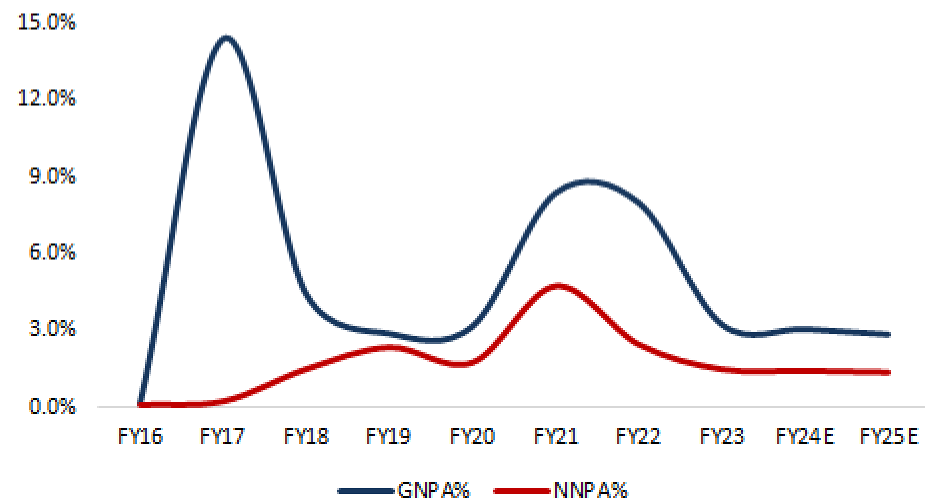
Particulars	FY18	FY19	FY20	FY21	FY22	FY23
No. of Districts - JLG	306	359	397	388	404	405
% of Districts with <1% exposure	92.5%	96.4%	96.5%	95.8%	97.3%	96.0%
% of Districts with >2%	1.0%	0.6%	0.5%	0.5%	0.3%	0.2%

(Source: Company, HDFC sec)

Benign credit costs to drive profitability

SCNL has taken over Rs 1000cr of provisioning over FY20-FY23 for loans given prior to the pandemic which turned into NPAs. Consequently, its credit costs which were ~1% prior to the pandemic, shot up to an average of ~5% in the last 4 years. As of FY23, restructured portfolio has reduced to 2.5% of on-book AUM. Cumulative collection efficiency for FY23 stood at 99.6% (excluding restructured portfolio), representing ~98% of onbook portfolio. SCNL recovered Rs 48cr from written-off accounts in FY23 and expects to recover Rs 50cr in FY24. With restructuring done and stressed assets provided for, credit costs are expected to moderate. The industry is talking of close to 1.5% to 2% credit costs and we believe SCNL could be better than the industry.

Asset quality to improve further



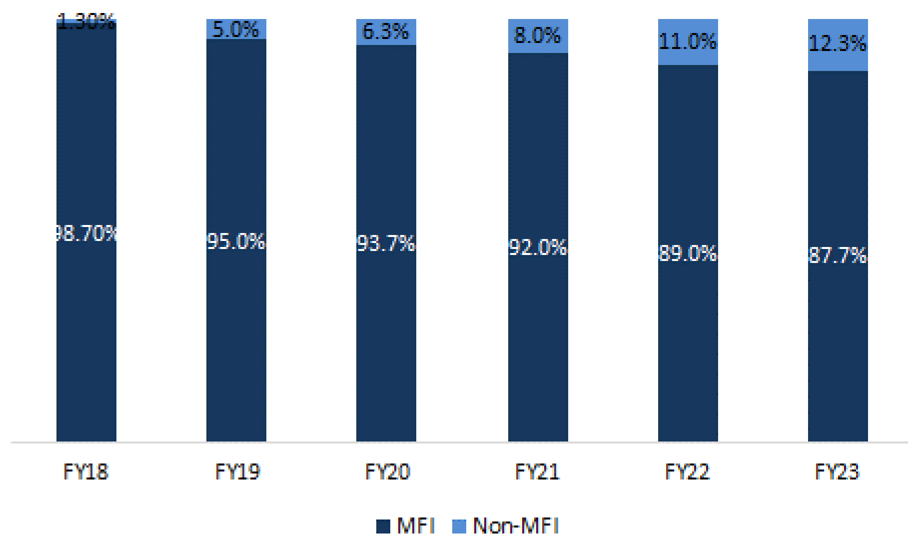
(Source: Company, HDFC sec)

Share of secured products to increase

The strategy to diversify portfolio has yielded results for the company and the subsidiaries have taken great shape over the years. The share of the non-MFI portfolio has increased to 12.3% of AUM at the end of FY23. SCNL is aiming for ~25% of contribution from secured lending portfolio on a medium to longer term horizon.

The AUM of Satin Housing Finance grew 59% in FY23 to Rs 505cr. SHFL has a 100% retail book. The quality of the portfolio remains intact with GNPA of 0.34% as on Mar'23. Satin Finserv Limited, the company's MSME and BC lending arm, has reached an AUM of Rs 682cr. GNPA has stood at 4.14%.

Growing share of non-MFI portfolio



(Source: Company, HDFC sec)

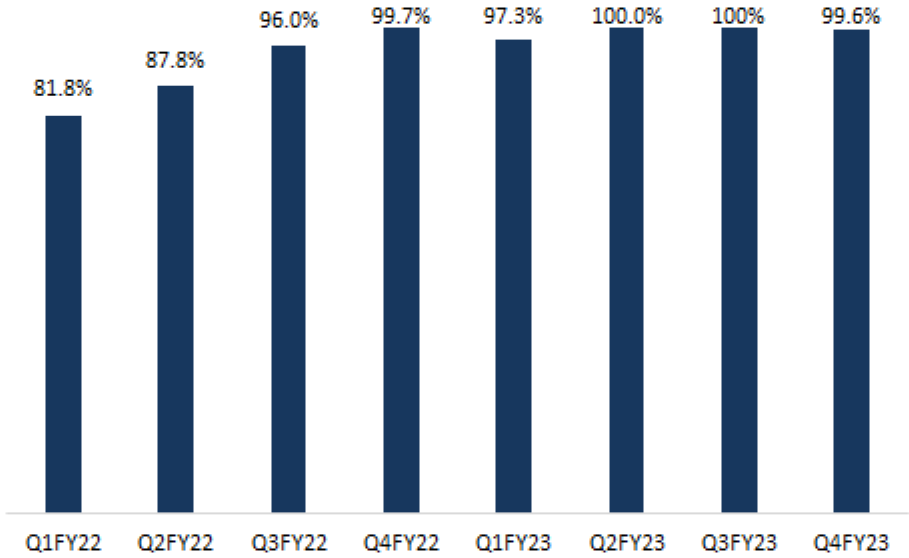
Focus on new client acquisition

SCNL is focusing on acquiring new clients, after restricting its lending to existing clients earlier. In Q4FY23, first cycle clients accounted for 61% of standalone disbursements.

Collection efficiencies showing improvement

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 ~53% of portfolio have also witnessed sharp improvement.

Improving trend in collection efficiencies



(Source: Company, HDFCsec)

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.

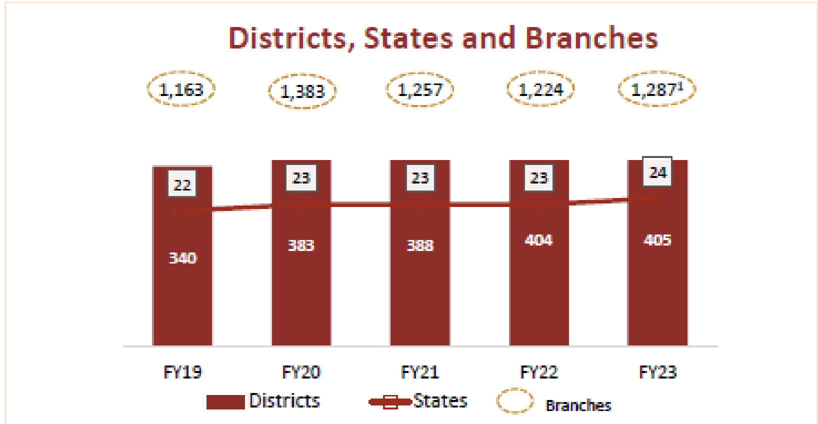
Satin Finserv Limited (SFL)

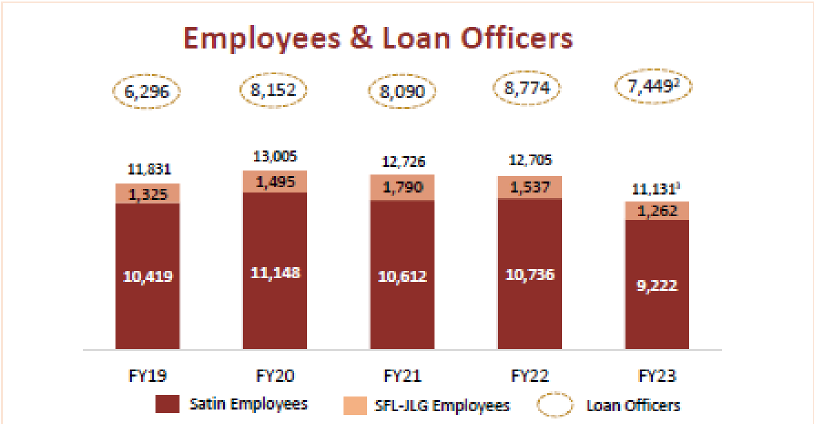
SFL was incorporated in Aug-2018 with the objective of providing Business loans to SME & MSME borrowers and to corporate borrowers. As of Q4FY23 the company had an AUM of Rs 682cr. GNPA stood at 4.1%. It reported an income of Rs 107cr in FY23 and a PAT of Rs 6cr against Rs 97cr and loss of Rs 20cr respectively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

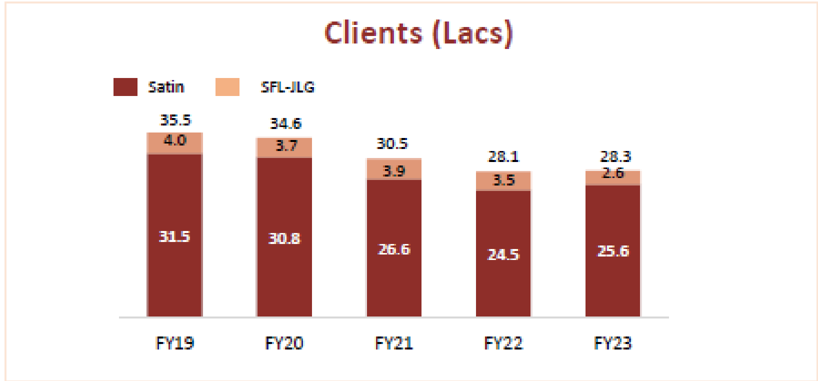
Product Portfolio

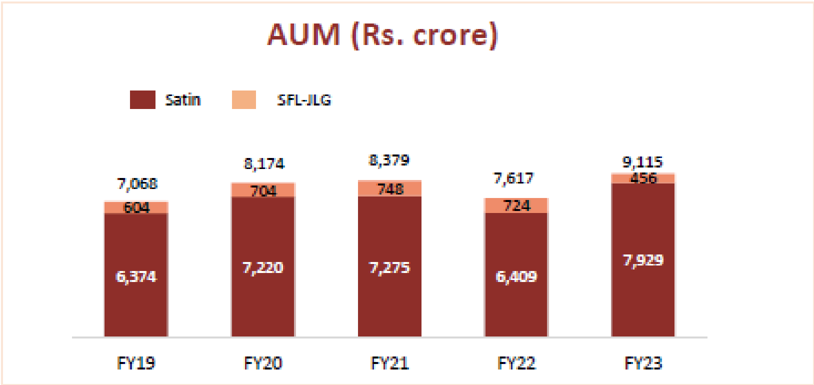
	MFI Segment	Housing Finance	Business Correspondent Services	SME
Product features as on Mar'23	SCNL	SHFL	SFL	SFL
Start Date	May'08 (JLG)	Feb'18	May'12	Mar'19
Ticket Size Range	Upto Rs 75,000	Rs 1-40 lakh	Upto Rs 50,000 (JLG)	Rs 1 lakh to Rs 10 cr
Tenure	6 - 24 months	24 – 240 months	12 - 24 months	12 – 120 months
Frequency of Collection	Bi-weekly	Monthly	Bi-weekly	Monthly/Quarterly
No. of States/UTs	24	4	6	10
No. of Branches	1075	30	157	22
AUM (Rs cr)	7536	505	456	226
No. of Loan Accounts	26,88,014	5,448	2,59,015	10,008
Avg. Ticket Size for Q4FY23	Rs 42,000 (JLG)	Rs 10,86,000	Rs. 39,800	Rs. 1,64,000 (Retail)

Key Operations Metrics



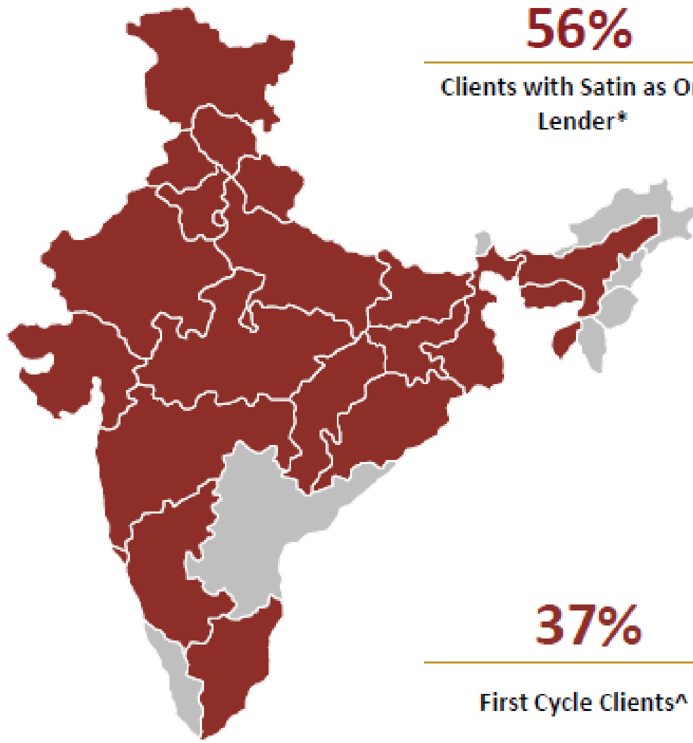






(Source: Company, HDFCsec)

Diversified Geographical presence



56%
Clients with Satin as Only Lender*

28.3 Lacs
No. of Active Clients

29.6 Lacs
No. of Loan Accounts

405
No. of Districts

95,000
No. of Villages

79
No. of Regional Offices

3.0 Lacs
No. of Centres

37%
First Cycle Clients^

7,449
No. of Loan Officers

11,131
No. of Employees

(Source: Company, HDFCsec)

Financials

Income Statement

(Rs cr)	FY21	FY22	FY23	FY24E	FY25E
Interest Income	1117	1170	1160	1413	1715
Interest Expenses	618	602	576	644	769
Net Interest Income	**499**	**569**	**584**	**770**	**946**
Non interest income	156	92	601	111	136
Operating Income	**655**	**660**	**1186**	**880**	**1082**
Operating Expenses	390	426	442	496	572
PPoP	265	235	743	384	510
Prov & Cont	275	175	402	101	116
Profit Before Tax	-10	59	341	283	393
Tax	4	19	77	71	98
PAT	**-14**	**40**	**264**	**212**	**295**

Balance Sheet

(Rs cr)	FY21	FY22	FY23	FY24E	FY25E
Share Capital	66	75	85	99	99
Reserves & Surplus	1425	1532	1829	2144	2438
Shareholder funds	**1491**	**1606**	**1914**	**2243**	**2538**
Borrowings	6026	5463	5447	6587	8059
Other Liab & Prov.	358	306	284	296	342
SOURCES OF FUNDS	**7875**	**7375**	**7645**	**9125**	**10939**
Fixed Assets	90	81	85	92	98
Investment	283	336	748	839	1024
Cash & Bank Balance	1863	1915	1029	1049	1109
Advances	5515	4897	5684	6992	8530
Other Assets	123	146	100	154	179
TOTAL ASSETS	**7875**	**7375**	**7645**	**9125**	**10939**

Ratio Analysis

Particulars	FY21	FY22	FY23	FY24E	FY25E
Return Ratios (%)					
Calc. Yield on adv	21.8	22.5	21.9	22.3	22.1
Calc. Cost of borr	10.8	10.5	10.6	10.7	10.5
NIM	9.8	10.9	11.0	12.1	12.2
RoAE	-0.9	2.6	15.0	10.2	12.3
RoAA	-0.2	0.5	3.5	2.5	2.9
Asset Quality Ratios (%)					
GNPA	8.4%	8.0%	3.3%	3.1%	2.9%
NNPA	4.8%	2.5%	1.5%	1.4%	1.4%
Growth Ratios (%)					
Advances	17.1	-11.2	16.1	23.0	22.0
Borrowings	11.4	-9.3	-0.3	20.9	22.4
NII	27.2	13.9	2.7	31.8	23.0
PPoP	-34.0	-11.6	216.6	-48.3	32.7
PAT	-108.7	LP	557.1	-19.8	39.1
Valuation Ratios (x)					
EPS	-2.0	5.4	31.2	21.4	29.7
P/E	-84.8	32.0	5.5	8.1	5.8
Adj. BVPS	184.3	199.1	215.6	215.9	243.9
P/ABV	0.8	0.8	0.8	0.8	0.7
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	52.9
Cost-Average Assets	5.2	5.6	5.9	5.9	5.7

(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. This 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.

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