Contraire

BONANZA WEALTH MANAGEMENT RESEARCH

04th January 2024

Satin Creditcare Network Ltd.

CMP : Rs. 271.0
Target Price : Rs. 330.0
Upside : 21%+
Stop Loss : Rs. 230.0 (Closing basis)

Investment Thesis

- Robust Growth Momentum: In the last 2-year Satin Creditcare Network Limited (Satin) has exhibited robust growth across operational and financial metrics. Because of Covid, its operational efficiency got impacted but after that Satin has improved its underwriting, collection efficiency and infused technology which improved its operational efficiency.
- Strong Asset Quality and Provisions: Satin has demonstrated resilience in maintaining a healthy asset quality, as evidenced by a decrease in Gross Non-Performing Assets (GNPA) to 2.38% in H1FY24 which was 8.4% in FY21, and Satin also maintained sufficient on-book provisions of Rs. 124 crores in H1FY24. The focus on underwriting processes and effective collections is reflected in Gross Cumulative Collection Efficiency of 99% for H1 FY24.
- Strategic Diversification: Satin has strategically diversified its portfolio by acquiring new clients, with first-cycle clients accounting for 49% of AUM in Q2FY24. The addition of new branches in FY23 were 54 branches where as in FY24 it has targeted 90+ branches addition. The breakeven point of these branches is 1,000 customers and it takes six-to-eight months to acquire 1,000 customers in these branches. Satin is not only focusing on microfinancing it is also emphasizes on product diversification, by increasing loans for vehicle, solar products and home appliances, which contributed to the company's growth.
- Financial Stability and Market Confidence: Satin demonstrates financial stability and market confidence. The Company has raised approximately Rs. 33,000 crores over the last 7 years and is maintaining a clean repayment track record. With a healthy Capital Adequacy Ratio (CAR) of 25.7%, it has sufficient liquidity of around Rs. 1,400 crores in H1FY24. Satin has consolidated AUM of Rs. 10,100 crores, which has increased by 42% from FY19 and it is expecting a growth of 25% in FY24E.
- Focused on secured loan: Satin is planning to expand the secured loan book of its subsidiaries which contribute 12% in AUM. Satin subsidiaries are in MSME and Housing finance, which it is targeting to increase till 25% in the next 3 years.

Financials

- In H1FY24 Satin reflects sustained profitability, with a 41% YoY increase in disbursement, resulting in a 33% YoY growth of Assets Under Management (AUM).

Particulars	FY21	FY22	FY23	FY24E	FY25E
Aum (Rs. Crs)	8,379.0	7,617.0	9,115.0	11,849.5	15,996.8
NII* (Rs Crs)	641.0	653.0	848.0	1,066.5	1,439.7
PPOP*(Rs Crs)	269.0	215.0	413.0	381.8	575.9
PAT * (Rs Crs)	-14.0	21.0	4.8	241.6	364.4
BVPS (x)	223.3	205.5	188.7	194.7	227.8
P/BV (%)	0.4	0.5	0.7	1.4	1.2

Stock Data

Market Cap (Rs. Crs)	2,995
Market Cap ($ Mn)	358.7
Shares O/S (in Cr)	11
Avg. Volume (3 month)	8,58,076
52-Week Range (Rs.)	279/ 114

Shareholding Pattern

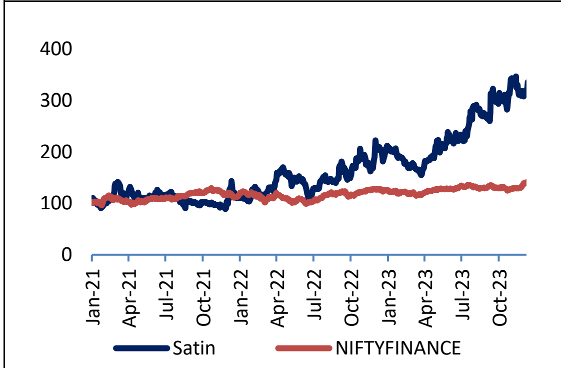
Promoter	36.60%
FIIs	10.34%
Institutions	8.34%
Public	44.82%

Key Ratios

Div Yield (%)	0.00
TTM PE (x)	8.30
ROE (%)	0.30
PB (x)	1.41

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	10.1%	46.9%	61.8%
NIFTYFINANCE	8.2%	41.9%	51.1%



- Satin has shown robust growth in profitability, in FY23, its NII (net interest income) was at Rs. 848 crores and in H1FY24 it has NII of Rs. 856 crores, respectively. In H1FY24, Satin reported PAT at Rs. 184.32 crores whereas in H1FY23 PAT was Rs. 151.72 crores, respectively. Reason behind this tremendous growth is decline in financial cost and improvement in operational efficiency, which further supported decline in cost to income ratio by 820bps from FY23, which is at 45.60% in H1FY24.
- The management expects asset quality to stay stable after recovering from the adverse impact of the Covid. In terms of Assam recoveries, the management is hopeful of receiving the first tranche from the government soon. Its Assam portfolio accounts for nearly half of its consolidated GNPA of 2.40%.

Key Business Highlights

- Satin began its journey in 1990 by providing individual and small business loans to shopkeepers in urban areas. Since then, it has evolved into one of India's leading NBFC-MFIs catering to the unserved and the underserved sections of the society in rural and semi-urban areas.
- Satin's commitment to excellence is acknowledged through various awards and accolades, including the Corporate Excellence Award and recognition for impactful scholarship programs. Satin adherence to Environmental, Social, and Governance (ESG) principles has led to a top rating from ESG Risk Assessments and Insights Limited.
- Satin has 1,335 branches catering to 96,000 villages spread across 412 districts. While the business is present in nearly 24 states/Union Territories, the top four states Uttar Pradesh, Bihar, West Bengal and Punjab account for 54% of the total loan portfolio.
- Satin reported decline in customer base from 30.5 lakh in FY21 to 28.3 lakh in FY23 which is improved further in H1FY24 and reached at 32.1 lakh customer supported by strong digital and physical network.

Valuation

The outlook for Satin remains positive, driven by its strong financial performance, strategic diversification, and commitment to sustainable business practices. The focus on technology-driven solutions, expansion of branches, and the ability to adapt to changing market dynamics positions the company for continued growth.

We recommend Satin with a BUY rating which is currently trading at attractive P/BV of 1.40x which is lower than the industrial P/BV of 1.75x and connoting a Target Price of Rs. 330 (1.45x P/BV multiple on FY25E BVPS) and a potential upside of 21%.

Risk & Concern

- Asset quality challenges in the higher-yielding segment could potentially impact earnings and margins.
- Economic slowdown due to which slower loan growth and higher-than-anticipated credit cost can impact margins adversely.

Graphs & Charts

Figure 1: AUM (Rs. Crs) and YoY growth (%)

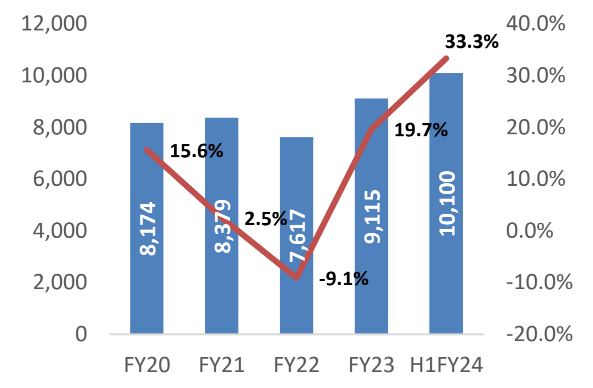


Figure 2: Declining Cost to Income ratio

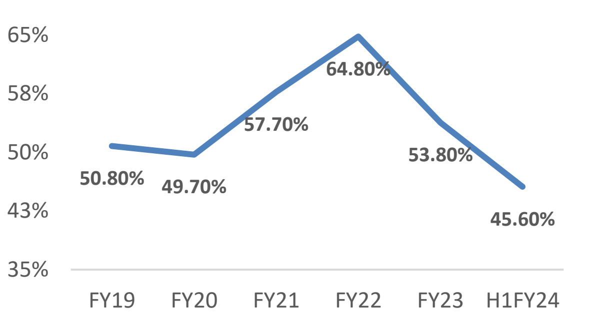


Figure 3: NII/NIM

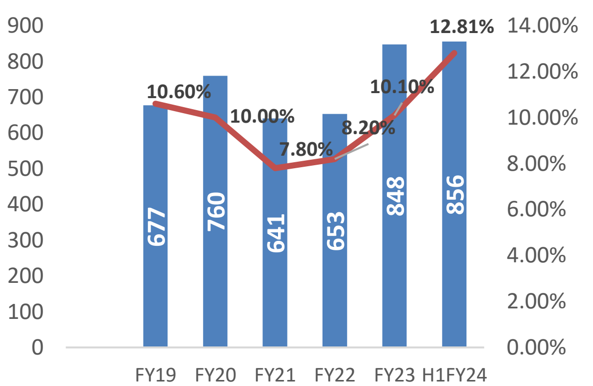
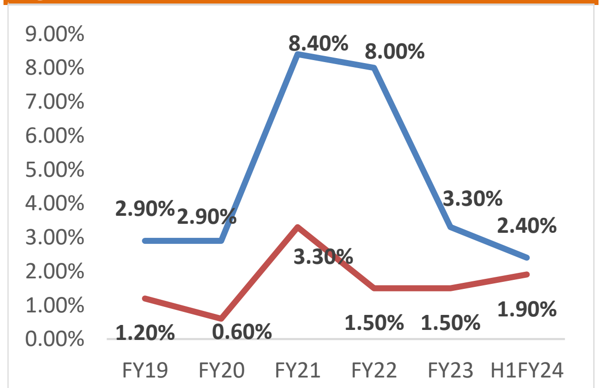


Figure 4: GNPA/NNPA



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