

Press Release

October 21, 2016 | Mumbai

CRISIL Research assigns fundamental grade 3/5 to Satin Creditcare Network Ltd

CRISIL Research has assigned CRISIL IER fundamental grade of 3/5 (pronounced 'three on five') to Satin Creditcare Network Ltd. The grade indicates that the company's fundamentals are 'good' relative to other listed equity securities in India. Our fair value of the stock is ₹620 per share. At the current market price of ₹593 per share, the valuation grade is 3/5 indicating the market price is aligned with the current level. The grades are not a recommendation to buy, sell or hold the graded instrument, or a comment on the graded instrument's future market price or its suitability for a particular investor.

The assigned fundamental grade takes into account strong growth prospects of the microfinance industry, in which Satin is a strong player. The industry's gross loan portfolio (GLP) is expected to increase at a CAGR of 40% from ₹594 billion in FY16 to ₹1,172 billion in FY18. Growth is expected to be driven by low microfinance penetration in India, the government's focus on financial inclusion and improved availability of funds for the sector. Despite robust CAGR of 49% in GLP between FY12 and FY16, the Indian microfinance industry remains underpenetrated, particularly in the northern and eastern regions.

Satin, one of the fastest growing microfinance NBFCs, is aptly positioned to benefit from growth potential owing to its strong presence in the underpenetrated states of Uttar Pradesh (UP), Bihar, Punjab and Madhya Pradesh (MP), supported by an extensive branch network and trained loan officers. Successful completion of its qualified institutional placement amounting to ₹2.5 billion in October 2016 augurs well for its growth prospects in the medium term.

However, the grade is constrained by the company's geographic concentration. UP, Bihar, MP and Punjab account for 85% of Satin's Q1FY17 GLP; UP dominates with 39%. This exposes the company to potential systemic risk(s) from specific regions and adverse changes to income patterns of borrowers in the aforementioned regions. Despite ongoing diversification to other states, we expect the risk of regional concentration to persist in the near term.

Financial outlook

CRISIL Research expects Satin's GLP to increase at a two-year CAGR of 44% to ₹67 billion in FY18. Net interest income is estimated to rise at a CAGR of 53% from ₹2.3 billion in FY16 to ₹5.5 billion in FY18, driven by strong GLP growth and decline in cost of funds. Accordingly, PAT is expected to grow at a CAGR of 57% from ₹579 million in FY16 to ₹1,434 million in FY18. Given the expected improvement in operational metrics, we expect adjusted RoA to increase from 1.7% in FY16 to 2.0% by FY18.

Valuation

CRISIL Research has used one-year forward P/B multiple of 2.8x on FY18 adjusted book value to arrive at a fair value of ₹620 per share for Satin. At the current market price of ₹593, the valuation grade is 3/5.

About the company

Delhi-based Satin is one of the largest microfinance players in India, regulated as an NBFC-MFI by the Reserve Bank of India. The company has operations in 16 states with more than 2 million active borrowers. Apart from providing microfinance loans, it provides MSME financing for traders, small manufacturers and service providers for the business and working capital requirements.

About CRISIL Independent Equity Research

CRISIL IER (Independent Equity Research) is an independent, unbiased opinion on fundamentals and fair valuation of the company. CRISIL IER encompasses a comprehensive analysis of the four pillars of sustainable value creation, namely: Industry and business prospects, financial performance & outlook, management capabilities and corporate governance.

About CRISIL Fundamental and Valuation (CFV) Matrix

The CFV matrix addresses two important aspects in investment making decision - analysis of fundamentals (addressed through fundamental grade) and analysis of returns (valuation grade). CRISIL's fundamental grade represents an overall assessment of the fundamentals of the company graded in relation to other listed equity securities in India. The grade facilitates easy comparison of fundamentals between companies, irrespective of the size or the industry they operate in. A CRISIL IER fundamental grade of '5/5' indicates 'excellent' fundamentals and a fundamental grade of '1/5' indicates 'poor' fundamentals relative to other listed equity securities in India. CRISIL's valuation grade represents an assessment of the fair value of the company's stock for an equity investor over a 12-month period. The grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP). A CRISIL IER grading should not be construed as a recommendation to invest in the graded security, nor a comment on suitability of a particular investment for the reader.

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Last updated: April 2016

Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

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