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VALUE PICK
CHASING VALUE, NOT PRICES

February 2017

Company Name : **SATIN CREDITCARE NETWORKS**

BSE Code : **539404**

Time Duration : **1 year**

CMP : **₹452 (as on 09 February, 2017)**

Target Price : **₹599**

Our Value Pick for the month of February 2017 is Satin Creditcare Networks Ltd. The North-based Satin Creditcare Networks Ltd (SCCN) is India's fifth largest micro-finance institution in terms of gross loan portfolio (GLP) as of March 2016. Its business model offers lending services to MFIs [joint liability groups (JLG), individual business and individuals, product financing, water and sanitation] and non-MFI segments (MSMEs, and other business correspondence). The company has grown its GLP at CAGR of 54% over FY13-16 and we expect it to grow at CAGR of 17% over FY16-18E. The company provides financial services in northern region with pan-India average MFI penetration of 14%, which leaves opportunity to increase penetration by growing its client base. We expect the company to grow its earnings at CAGR of 45.82% over FY16-18E which will give FY18E EPS of Rs 40.68. We see 30%-plus upside in the scrip from the current level.

Key Drivers

Robust Business Model :

The company offers financial services in northern, central and eastern region under theme of financial inclusion. It provides services to economically active women of JLG and individuals and group product financing to many projects like solar lamps and water and sanitation in rural and semi-urban areas. It has also started offering individual macro loans to clients from JLG with optimum credit history. The company has put in place loan utilisation checks coupled with strong IT infrastructure which reflects in NNPA of the company. Under product financing, it aims to design new product on need-based products of the clients. It has grown its average ticket size (ATS) at CAGR of 13.18% to Rs 17807 and aims to increase more.

Widespread presence in under-penetrated regions :

The company has grown to 16 states in northern, central and southern regions by strategically identifying areas to enter with healthy penetration of JLGs. 10 states out of 16 have less than 10% microfinance penetration with high growth markets, which offer huge growth opportunities for SCCN. SCCN has grown to 681 branches as of now from 144 in FY12. Its active client base as on Sept. 2016 was ~2.27 mn, which has grown at a CAGR

of 52.42% over FY14-FY16. Going forward, it plans to focus on increasing its penetration in existing states and enter new geographies in and outside India. We believe that the company will expand its business and maintain momentum on the back of strong presence in the under-penetrated regions.

Acquisition of TSPL will drive growth :

SCCN acquired Taraashna Services Private Ltd (TSPL) in Aug 2016, making it 87.83% subsidiary of SCCN effective from Sept. 2016. TSPL acts as business correspondence for banks and provides similar services to other financial institutes in rural and semi-urban areas. TSPL has presence in 7 under-penetrated states. We believe that the company will strengthen its presence through TSPL. The revenue of TSPL has grown at CAGR of 85% over FY14-16 and it is expected to sustain same rate going forward. This will add more cream in the growth rate of SCCN by ~20%.

Government's mission of financial inclusion benefits company :

The government's thrust for financial inclusion includes providing financial services to unserved and underserved sections under Pradhan Mantri Jan Dhan Yojana (PMJDY) through banks/small finance banks/payment banks. As of now, over 225 mn bank accounts have been opened under this scheme. Rural areas account for only 10% bank credit and have scope to increase it. RBI has allotted small finance bank (SFB) licences to 10 entities, out of which 8 are MFIs. We see SCCN is positioned well in such macro scenario with wide scope to rise as SFB.

Strong Financial Performance:

H1FY17 (Standalone) - The total operating income of the company rose by 80.6% YoY to Rs 206.7 cr in H1FY17, driven by lower finance cost and higher loan book. Net interest income of the company surged by 79.4% YoY to Rs 202 cr. PAT of the company grew by 90.4% YoY to Rs 50.6 cr on the back of higher operating income and slight moderation in operating cost. The company maintains impressive asset quality with GNPA of 0.2% and NNPA of 0.1% as of H1FY17.

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Valuation

The stock is trading at FY18E P/E of 9.04x and with FY18E EPS of Rs 40.68, it looks attractive at this level. The company also delivers ROE of 26.89% which is continuously improving since last four years and we expect it to reach 30% in the near future.

Considering strong financials, robust business model, geographic presence and attractive valuation, we recommend investors to BUY this scrip in the range of Rs 400-475 (CMP- 452) with target price of Rs 599.

Yearly Standalone Financial Performance (Rs Cr)

	FY13	FY14	FY15	FY16
Interest Earned	69.8	146.7	237.4	380.5
Total Revenue	94.33	191.65	324.16	558.52
Gross AUM	580	1056	2141	3271
PAT	3.9	15.5	31.7	57.9
EPS	1.72	6.83	12.22	18.25
GNPA%	0.16	0.02	0.02	0.17
NNPA%	0.14	0.01	0.01	0.09
NIM%	8.90	10.50	9.20	9.90
ROA %	0.7	1.67	2.03	2.18
ROE %	3.8	11.81	18.57	22.17

Quarterly Consolidated Financial Performance (Rs Cr)

	Q2FY17	Q1FY17	QoQ	Q2FY16	YoY
Interest Earned	130.8	131.9	-1%	92.3	42%
Total Revenue	212.7	196.7	8%	127.1	67%
Gross AUM	4180	3278	28%	2155	94%
PAT	26.4	24.5	8%	14.5	82%
EPS	8.18	7.81	5%	5.1	60%

