March 28, 2023 (Revised)

Satin Creditcare Network Ltd.: Ratings reaffirmed/[ICRA]A- (Negative) assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper	200.00	200.00	[ICRA]A1; Reaffirmed
Non-convertible debentures	25.00	25.00	[ICRA]A- (Negative); Reaffirmed
Non-convertible debentures	-	50.00	[ICRA]A- (Negative); Assigned
Subordinated debt	100.00	100.00	[ICRA]A- (Negative); Reaffirmed
Long-term/short-term fund-based term bank facilities programme	2,500.00	2,500.00	[ICRA]A- (Negative)/ [ICRA]A1; Reaffirmed
Long-term fund-based term loan facilities programme	40.00	40.00	[ICRA]A (CE) (Stable); outstanding
Total	**2,865.00**	**2,915.00**	

**Instrument details are provided in Annexure I*

For the credit enhanced rating of the entity, refer to the rationales given in the structured finance section here

Rationale

The ratings continue to factor in Satin Creditcare Network Ltd.'s (SCNL) established presence in the Indian microfinance landscape as it is one of the largest players in the sector as per portfolio size. SCNL reported consolidated assets under management (AUM) of Rs. 7,945 crore as on December 31, 2022 (after write-offs of ~Rs. 579 crore in 9M FY2023) compared to Rs. 7,617 crore as on March 31, 2022. Further, its healthy geographical diversification, experienced management team, good systems and processes and diversified funding profile support its credit profile.

The ratings, however, also consider the weakening of SCNL's consolidated profitability profile, given the sizeable credit costs booked in 9M FY2023 because of higher-than-anticipated slippages from the restructured book, which came out of the moratorium in April 2022. It reported a consolidated loss of Rs. 94 crore in 9M FY2023[1] vis-à-vis a net profit of Rs. 21 crore in FY2022. This led to a decline in the consolidated net worth in 9M FY2023 and hence, the managed gearing[2] increased to 5.7 times (estimated) as on December 31, 2022 from 5.0 times as on March 31, 2022. ICRA notes that SCNL raised equity capital of Rs. 62 crore during the year (11M FY2023) and has share warrants, from which it can raise capital of ~Rs. 88 crore to support its capitalisation profile.

The ratings also take into consideration SCNL's sizeable monitorable book, which includes the standard restructured book of Rs. 100 crore {sub-90 days past due (dpd)}, security receipts (SRs)[3] of Rs. 87 crore and gross non-performing assets (GNPAs) of Rs. 188 crore as on December 31, 2022, which cumulatively accounted for 5.5% of its standalone AUM as on December 31, 2022. ICRA notes that the monitorable book has declined from ~14% in June 2022 and SCNL was carrying a provision of Rs. 181 crore, as of December 2022, for the cumulative stressed exposure. Nevertheless, ICRA would continue to monitor the performance of the stressed book and the incremental slippage rate.

Further, the ratings continue to factor in the risks associated with the unsecured nature of microfinance loans, the marginal borrower profile, which is susceptible to income shocks, and the political and operational risks inherent in the microfinance business. SCNL also faces prepayment risk, given the possibility of debt acceleration upon the breach of covenants, including

[1] *On a standalone basis, SCNL reported a profit of Rs. 170 crore in 9M FY2023, aided by the fair valuation gain on its investment in subsidiaries*

[2] *Managed gearing = (on-book debt + off-book portfolio) / net worth*

[3] *SCNL sold some stressed assets to an asset reconstruction company (ARC) in Q4 FY2022 and Q1 FY2023*

financial, operating and rating-linked covenants. Upon failure to meet the covenants, if the company is unable to get waivers from the lenders/investors or the lenders/investors do not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans, the ratings would face pressure. Nevertheless, ICRA notes that the company has been able to raise fresh funds, despite covenant breaches in the last 1-2 years.

The outlook remains Negative, given the high, albeit declining, monitorable book, the performance of which remains to be seen. SCNL's ability to recover from its stressed book, improve its asset quality, control the credit costs and improve the profitability would remain a monitorable.

Key rating drivers and their description

Credit strengths

One of the largest players in microfinance industry with established track record – SCNL has an established track record of operations of more than three decades in the finance industry and is one of the largest players in the microfinance industry with a consolidated AUM of Rs. 7,945 crore as on December 31, 2022 (Rs. 7,617 crore as on March 31, 2022 and Rs. 8,379 crore as on March 31, 2021). Through its subsidiaries, SCNL has diversified its product base into other asset classes like affordable housing (ticket size of up to Rs. 40 lakh), micro, small and medium enterprise (MSME) finance (ticket size of up to Rs. 15 lakh) and wholesale lending (ticket size up to Rs. 10 crore). Satin Housing Finance Limited (SHFL) and Satin Finserv Limited (SFL) have turned profitable while currently operating at low leverage levels and have better asset quality so far. However, these subsidiaries are in a nascent stage of operations and their ability to grow their scale while improving/maintaining the aforementioned parameters shall be key for SCNL's consolidated profile.

Diversified funding profile – SCNL has a well-diversified funding profile comprising more than 55 active lenders as on December 31, 2022. Its funding profile has improved steadily over time with term loans from banks and non-banking financial companies (NBFCs)/financial institutions (FIs) accounting for ~51%, outstanding non-convertible debentures (NCDs) accounting for ~16% and assignment and other sources accounting for the balance (~33%) as on December 31, 2022.

Geographically spread operations – SCNL has a wide geographical reach with a presence in 23 states and Union Territories (UTs) across 401 districts through 1,260 branches (consolidated level) as on December 31, 2022. At the district level, the share of the top 10 districts' AUM with respect to the net worth was ~70% as on December 31, 2022 vis-à-vis 61% in March 2022 (~71% in March 2021). The diversification at the district level has improved over the years and is expected to improve further as the company expands more in the states, which currently have a lower share in the AUM.

Good information systems and in-house information technology team – SCNL has an in-house software system, which helps it track every client, group, centre, branch, territory, region, and zone, apart from the company in its entirety. The system brings with it significant productivity improvements through automation and will help realise operational efficiency. The company disburses ~100% of the loans through the cashless mode while ~20% of the incremental collections are cashless or via cash management system (CMS) vendors. SCNL tracks data on state-wise, district-wise and branch-wise disbursements and collections on a real-time basis, which aids better decision-making and faster corrective action. It has also rolled out its customer service application, which provides the borrower with complete digital real-time access to the credit details pertaining to her loan with the company.

Credit challenges

Weak profitability, given deterioration in asset quality due to pandemic – SCNL reported standalone GNPA on its on-book portfolio of 3.9% as on December 31, 2022 compared to 8.0% as on March 31, 2022 (8.4% as on March 31, 2021). The improvement in the GNPAs was on account of write-offs of ~Rs. 579 crore in 9M FY2023. The deterioration in the asset quality was on account of the Covid-19 pandemic-driven stress, impacting the livelihood of borrowers. SCNL had a restructured loan book of around 17% of its standalone AUM as on December 31, 2021, which declined to ~3% as on December 31, 2022 (driven by recoveries and write-offs). Furthermore, it sold some stressed assets in the past few quarters to an asset reconstruction company (ARC), from which it received SRs, the outstanding value of which was Rs. 87 crore as on December 31, 2022 (1.3% of its standalone AUM) against which SCNL carries a provision of Rs. 57 crore. This does not form a part of its reported GNPAs.

ICRA notes that the stressed exposure declined in 9M FY2023 with substantial write-offs done during the year. However, the company reported some increase in incremental slippages in Q3 FY2023 and its ability to reduce/contain further slippages, going forward, shall remain a monitorable.

With the deterioration in the asset quality and elevated credit costs, the company's profitability remains weak. It reported a consolidated loss of Rs. 94 crore in 9M FY2023 (net total comprehensive income (TCI) of negative Rs. 114 crore) vis-à-vis a consolidated net profit of Rs. 21 crore in FY2022 (negative TCI of Rs. 8 crore). ICRA notes that SCNL witnessed some increase in credit costs in Q3 FY2023 vis-à-vis Q2 FY2023 after incurring substantial credit costs in Q1 FY2023. Nevertheless, ICRA expects the credit costs to be limited, going forward, and the company's ability to maintain this would remain a monitorable. Further, ICRA notes that SCNL's income from direct assignment (DA) transactions increased in 9M FY2023, improving its loss absorbing capacity for the year.

Relatively higher managed gearing – SCNL's consolidated managed gearing[4] was 5.7 times (estimated) as on December 31, 2022 compared to 5.0 times as on March 31, 2022 (5.9 times as on March 31, 2021). The increase in the managed gearing was on account of the decline in the consolidated net worth in 9M FY2023 on account of the reported losses. However, ICRA notes that the company is in the process of raising capital of around Rs. 100 crore[5] in the near term. ICRA expects that additional capital, over and above the capital raise in the pipeline, would be required to support the growth of the subsidiaries and provide cushion for the absorption of any further credit losses.

Marginal borrower profile and limited product and revenue diversification – Although SCNL has ventured into housing and MSME lending through its subsidiaries, its product diversification remains low with the concentration primarily being in the microfinance segment. Also, the company's portfolio remains relatively risky, given the unsecured nature of the same. Unsecured lending to the marginal borrower profile and the political and operational risks associated with microlending may result in high volatility in the asset quality indicators. The microfinance industry is prone to socio-political and operational risks, which could negatively impact the company's operations and thus its financial position as has been seen during the pandemic. SCNL's ability to onboard borrowers with a good credit history, recruit and retain employees and maintain geographical diversity would be a key rating sensitivity.

Environment and social risks

Environmental – While MFIs like SCNL do not face material physical climate risks, they are exposed to environmental risks indirectly through their portfolio of assets. If the borrowers, to whom such MFIs have an exposure, face livelihood disruption because of physical climate adversities, it could translate into credit risks for the MFIs. However, such risk is not material for SCNL, as it benefits from adequate geographical diversification in its portfolio. Further, the lending is for loans with a tenure of around 2 years, which will allow it to adapt and take incremental exposure on borrowers that face relatively fewer downside environmental risks.

Social – With regard to social risks, data security and customer privacy are among the key sources of vulnerability for MFIs, as any material lapse could be detrimental to their reputation and invite regulatory censure. Satin has not faced such lapses over the years, which highlights its sensitivity to such risks. Further, it contributes to promoting financial inclusion by lending to the under-served women borrowers largely in rural areas.

Liquidity position: Strong

SCNL had a free cash and liquid balance of Rs. 1,274 crore as on December 31, 2022 with debt obligations (including interest) of Rs. 1,530 crore due over the next six months. Factoring in collections of Rs. 1,899 crore due over the next six months, SCNL's liquidity position is strong. Even with NIL collections, the company's liquidity along with unavailed sanctions (Rs. 674 crore as on December 31, 2022) would be sufficient to cover three months of debt obligations and operational expense requirements.

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[4] *Managed gearing = (on-book debt + off-book portfolio) / net worth*

[5] *SCNL raised Rs. 50 crore in 9M FY2023*

Rating sensitivities

Positive factors – ICRA could revise the outlook to Positive or upgrade the ratings if the company is able to improve its profitability on a sustainable basis, while improving its asset quality indicators and maintaining adequate capitalisation and managed gearing levels.

Negative factors – Pressure on the ratings could arise if there is a further deterioration in the asset quality, which could affect the profitability. A sustained weakening in the earnings profile or weakening of the capitalisation profile with a managed gearing of more than 6 times or a stretch in the liquidity could also exert pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies Rating approach - Consolidation
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company

About the company

SCNL, set up in 1990 to provide individual business loans to urban shopkeepers, started providing group lending services to the rural poor in 2008. It was registered with the Reserve Bank of India (RBI) as a deposit-taking NBFC under the name, Satin Leasing and Finance Company Limited. Following its conversion into a public limited company in 1994, the company was renamed Satin Creditcare Network Ltd. in 2000. It stopped accepting public deposits from November 2004 and the RBI changed its classification to Category B (non-deposit taking) from Category A (deposit-taking) in February 2009 and converted it into an NBFC-microfinance institution (NBFC-MFI) in November 2013. The company's microfinance operations are based on the Grameen Bank joint liability group (JLG) model and were spread across 1,057 branches in the country as on December 31, 2022 on a standalone basis and 1,260 branches for the Group as a whole.

SCNL is listed on the National Stock Exchange of India Limited (NSE) and Bombay Stock Exchange (BSE). As on December 31, 2022, the company's consolidated AUM stood at Rs. 7,945 crore. It reported a net loss of Rs. 94 crore in 9M FY2023 (total comprehensive income of negative Rs. 114 crore) against a net profit of Rs. 21 crore in FY2022 at the consolidated level.

Key financial indicators (consolidated; audited)

Satin Creditcare Network Ltd.	FY2020	FY2021	FY2022	9M FY2023*
Accounting as per	Ind AS	Ind AS	Ind AS	Ind AS
Total income	1,503	1,374^	1,381	1,122
Profit after tax	155	(14)	21	(94)
Net worth	1,415	1,452	1,548	1,484
Gross AUM	8,174	8,379	7,617	7,945
Total managed assets	10,729	10,682	9,988	10,412
Return on average managed assets	1.6%	-0.1%	0.2%	-1.2%
Return on average net worth	12.2%	-1.0%	1.4%	-8.2%
On-book gearing (times)	4.0	4.3	3.7	4.0
Managed gearing (times)	5.8	5.9	5.0	5.7

Satin Creditcare Network Ltd.	FY2020	FY2021	FY2022	9M FY2023*
Accounting as per	Ind AS	Ind AS	Ind AS	Ind AS
GNPA (standalone)	3.2%	8.4%	8.0%	3.9%
NNPA (standalone)	1.8%	4.7%	2.4%	1.5%
Solvency (NNPA/Net worth)	6.4%	17.8%	7.6%	4.0%
CRAR (standalone)	30.5%	25.3%	27.8%	27.0%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore
Managed gearing = (on-book debt + off-book portfolio) / net worth; Net worth is adjusted for goodwill
Total managed assets = Total of balance sheet + ECL provision + Off-book portfolio - Goodwill
** Limited review numbers for 9M FY2023; net worth and gearing on estimated basis*
GS-3, NS-3, NS-3/Net worth and CRAR are on standalone basis
^Adjusted for fair value losses

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)						Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Feb 28, 2023 (Rs. crore)	Date & Rating in FY2023			Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					Mar 28, 2023	Sep 19, 2022	Apr 12, 2022	Jul 20, 2021	Apr 23, 2021	Aug 4, 2020	Sep 27, 2019
1	Commercial paper	Short term	200	0	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
2	NCD programme	Long term	25	8.33	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	Subordinated debt	Long term	100	75	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
4	Fund-based bank facilities programme	Long term/ Short term	2,500	2,490.51	[ICRA]A- (Negative)/ [ICRA]A1						
5	NCD programme	Long term	50	-	[ICRA]A- (Negative)						
6	Preference share programme	Long term	-	-	-	-	-	-	-	-	[ICRA]BBB+(hyb) (Stable); withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD programme	Simple
Subordinated debt	Moderately complex
Commercial paper	Very simple
Fund-based bank facilities programme	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
Not issued	CP programme	NA	NA	NA	200.00	[ICRA] A1
INE836B07477	NCD programme	Jul-31-2020	10.95%	Jul-31-2023	25.00	[ICRA]A- (Negative)
To be issued	NCD programme	NA	Na	NA	50.00	[ICRA]A- (Negative)
INE836B08046	Subordinated debt	Jul-29-2016	15.00%	Jul-29-2023	25.00	[ICRA]A- (Negative)
INE836B08061	Subordinated debt	Dec-30-2015	15.50%	Apr-15-2022	25.00	[ICRA]A- (Negative)
INE836B08103	Subordinated debt	Jun-29-2016	15.00%	Sep-30-2022	10.00	[ICRA]A- (Negative)
INE836B08111	Subordinated debt	Jun-29-2016	15.00%	Sep-30-2022	10.00	[ICRA]A- (Negative)
INE836B08129	Subordinated debt	Jun-29-2016	15.00%	Sep-30-2022	10.00	[ICRA]A- (Negative)
INE836B08137	Subordinated debt	Jun-29-2016	15.00%	Sep-30-2022	10.00	[ICRA]A- (Negative)
INE836B08095	Subordinated debt	Jun-28-2016	15.50%	Sep-28-2022	10.00	[ICRA]A- (Negative)
NA	LT/ST fund-based bank facilities	NA	NA	NA	2,500	[ICRA]A- (Negative)/ [ICRA]A1

Source: Company; CP details and bank facilities as on February 28, 2023

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis:

Company Name	SCNL Ownership	Consolidation Approach
Taraashna Financial Services Limited	100.00%	Full Consolidation
Satin Finserv Limited	100.00%	Full Consolidation
Satin Housing Finance Limited	100.00%	Full Consolidation

Corrigendum

On page 4, “Rating approach – Consolidation” had been missed inadvertently, which has been added now.

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