June 09, 2023

Satin Creditcare Network Ltd.: Ratings assigned/reaffirmed and outlook revised to Stable from Negative; Rating reaffirmed and withdrawn for Rs. 60-crore sub-debt programme

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	75.00	75.00	[ICRA]A- (Stable); Reaffirmed and outlook revised to Stable from Negative
Non-convertible debentures	-	500.00	[ICRA]A- (Stable); Assigned
Subordinated debt	40.00	40.00	[ICRA]A- (Stable); Reaffirmed and outlook revised to Stable from Negative
Subordinated debt	60.00	-	[ICRA]A- (Stable); Reaffirmed and outlook revised to Stable from Negative and simultaneously withdrawn
Long-term/short-term fund-based term bank facilities programme	2,500.00	2,500.00	[ICRA]A- (Stable); Reaffirmed and outlook revised to Stable from Negative [ICRA]A1; Reaffirmed
Long-term fund-based term loan facilities programme	40.00	40.00	[ICRA]A (CE) (Stable); outstanding
Total	**2,915.00**	**3,355.00**	

**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 revision in the outlook factors in the gradual waning of the impact of Covid-19 pandemic-induced disruptions on Satin Creditcare Network Ltd.'s (SCNL) overall credit profile. Earlier, the Negative outlook had factored in the impact of the pandemic on the company's growth, asset quality and profitability. However, SCNL has now increased its disbursements, which has led to a growth of ~20% in its consolidated assets under management (AUM) to Rs. 9,115 crore as on March 31, 2023. It also witnessed a gradual improvement in its asset quality and profitability in the last few quarters, though the same remains moderate.

The ratings continue to factor in SCNL's established presence in the Indian microfinance landscape as it is one of the largest players in the sector as per portfolio size. Further, its healthy geographical diversification, experienced management team and diversified funding profile support its credit profile.

ICRA notes that SCNL's asset quality metrics and profitability indicators remain subdued, but have been improving quarter-on-quarter. ICRA expects the trend to continue. On the asset quality front, SCNL's gross monitorable book, which includes the standard restructured book of Rs. 41 crore, security receipts (SRs) of ~Rs. 86 crore (net SRs of Rs. 59 crore) and gross non-performing assets (GNPAs) of Rs. 185 crore as on March 31, 2023, declined to 5% of the standalone on-book portfolio as on March 31, 2023 from ~25% as on March 31, 2022. In addition, SCNL was carrying adequate provision for the same.

SCNL also witnessed an improvement in its consolidated profitability in Q4 FY2023 as it reported a profit after tax (PAT) of Rs. 99 crore during the quarter. Nonetheless, its annual PAT for FY2023 stood at Rs. 5 crore, translating into a return on average managed assets (RoMA) of 0.0% against Rs. 21 crore and 0.2%, respectively, in FY2022. ICRA expects the profitability to continue improving and SCNL's ability to contain its credit costs while improving its operational efficiency shall remain key for its profitability. The ratings also remain constrained by the high consolidated managed gearing of 5.5 times as on March 31, 2023 compared to 5.0 times as on March 31, 2022. SCNL raised some equity in FY2023 and is expected to raise further equity in the current fiscal. Nevertheless, ICRA expects the company to raise further equity in the near term to support its growth plans, to improve its gearing and to have adequate cushion for future contingencies.

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.

The outstanding rating on SCNL's Rs. 60-crore subordinated debt programme has been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings and as requested by the company. The rated instrument was fully repaid and no amount is outstanding against the same.

Key rating drivers and their description

Credit strengths

Established track record and healthy scale of operations – 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. 9,115 crore as on March 31, 2023 compared to Rs. 7,617 crore as on March 31, 2022, up ~20%. SCNL's standalone AUM grew ~24% in FY2023, leading to an AUM of Rs. 7,929 crore as on March 31, 2023. 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). Satin Housing Finance Limited (SHFL) and Satin Finserv Limited (SFL) are profitable while 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 of 65 active lenders as on March 31, 2023. 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 March 31, 2023. Nevertheless, further traction on fund raising through multiple sources would be needed to achieve the stated growth targets.

Geographically diversified operations – SCNL has a wide geographical reach with a presence in 24 states and Union Territories (UTs) across 405 districts through 1,287 branches (consolidated level) as on March 31, 2023. At the district level, 96% of SCNL's districts had a share of less than 1% of the AUM, as on March 31, 2023 and only one district had a share of more than 2% of the AUM. 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.

Credit challenges

Subdued, albeit improving, asset quality and profitability metrics – SCNL reported standalone GNPAs on its on-book portfolio of 3.3% as on March 31, 2023 compared to 8.0% as on March 31, 2022. The improvement in the GNPAs was on account of substantial write-offs in FY2023. SCNL's standard restructured loan book declined to around 1% of its standalone loan book as on March 31, 2023, driven by recoveries and write-offs. SCNL also had outstanding SRs of Rs. 86 crore (net SRs of Rs. 59 crore) as on March 31, 2023. Its total monitorable book (GNPA + standard restructured book and SRs) reduced to 5% as on March 31, 2023 from 27% as on March 31, 2022, though it remains moderate. The company's ability to reduce/contain further slippages shall remain a key monitorable.

With elevated credit costs, the company's profitability also declined. It reported a consolidated PAT of Rs. 5 crore in FY2023 vis-à-vis Rs. 21 crore in FY2022. However, the profitability has been improving quarter-on-quarter and ICRA expects the trend to continue with the expectation of limited incremental credit costs. The company's ability to do so would remain a monitorable.

High managed gearing – SCNL's consolidated managed gearing[1] was 5.5 times as on March 31, 2023 compared to 5.0 times as on March 31, 2022. The increase was on account of lower rise in the consolidated net worth in FY2023 against the higher increase in the AUM. ICRA notes that the company is in the process of raising capital of around Rs. 88 crore[2] in the near term. ICRA expects that additional capital, over and above the capital raise in the pipeline, would be required to support the consolidated growth 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 microfinance institutions (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 facing 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. SCNL 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 underserved women borrowers largely in rural areas.

Liquidity position: Strong

SCNL had a free cash and liquid balance of Rs. 1,029 crore as on March 31, 2023 with debt obligations (including interest) of Rs. 1,740 crore due over the next six months. Factoring in collections of Rs. 1,674 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. 580 crore as on March 31, 2023) would be sufficient to cover three months of debt obligations.

Rating sensitivities

Positive factors – ICRA could revise the outlook to Positive or upgrade the ratings if the company is able to grow its scale of operations and improve its profitability indicators (with RoMA of more than 2.5%) and asset quality indicators while maintaining a prudent capitalisation profile on a consistent basis.

Negative factors – Pressure on the ratings could arise if there is deterioration in the asset quality metrics, which could affect the profitability, going forward (RoMA of less than 1.5%), on a sustained basis. Further, weakening of the capitalisation profile with a managed gearing of more than 6 times or a stretch in the liquidity could exert pressure on the ratings.

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

[2] SCNL raised Rs. 62 crore in FY2023; Rs. 88 crore planned to be raised is part of outstanding share warrants issued under preferential issue approved in January 2021

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating methodology for non-banking finance companies Policy on Withdrawal of Credit Ratings 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 1,078 branches in the country as on March 31, 2023 on a standalone basis and 1,287 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 March 31, 2023, the company's consolidated AUM stood at Rs. 9,115 crore. It reported a net profit of Rs. 5 crore in FY2023 against Rs. 21 crore in FY2022 at the consolidated level.

Key financial indicators (consolidated; audited)

Satin Creditcare Network Ltd.	FY2021	FY2022	FY2023
Accounting as per	**Ind AS**	**Ind AS**	**Ind AS**
Total income	1,374^	1,381	1,559
Profit after tax	(14)	21	5
Net worth	1,452	1,548	1,594
Gross AUM	8,379	7,617	9,115
Total managed assets	10,682	9,988	10,595
Return on average managed assets	-0.1%	0.2%	0.0%
Return on average net worth	-1.0%	1.4%	0.3%
On-book gearing (times)	4.3	3.7	3.7
Managed gearing (times)	5.9	5.0	5.5
GNPA (standalone)	8.4%	8.0%	3.3%
NNPA (standalone)	4.7%	2.4%	1.5%
Solvency (NNPA/Net worth)	17.8%	7.6%	4.4%
CRAR (standalone)	25.3%	27.8%	26.6%

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; For Mar-23, the value does not include ECL provision
GNPA, NNPA, NNPA/Net worth and CRAR are on standalone basis

Status of non-cooperation with previous CRA: Not applicable

Any other information:

SCNL also faces prepayment risk, given the possibility of debt acceleration upon the breach of covenants, including 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.

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Apr 30, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023			Date & Rating in FY2022		Date & Rating in FY2021
					Jun 9, 2023	Mar 28, 2023	Sep 19, 2022	Apr 12, 2022	Jul 20, 2021	Apr 23, 2021	Aug 4, 2020
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	0	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	Subordinated debt	Long term	40	40	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
4	Fund-based bank facilities programme	Long term/ Short term	2,500	2,241.72	[ICRA]A- (Stable)/ [ICRA]A1	[ICRA]A- (Negative)/ [ICRA]A1					
5	NCD programme	Long term	50	50	[ICRA]A- (Stable)	[ICRA]A- (Negative)					
6	NCD programme	Long term	500	-	[ICRA]A- (Stable)						
7	Subordinated debt	Long term	60	-	[ICRA]A- (Stable); withdrawn	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)

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- (Stable)
INE836B07717	NCD programme	Apr-6-2023	NA	Oct-6-2024	50.00	[ICRA]A- (Stable)
To be issued	NCD programme	NA	NA	NA	500.00	[ICRA]A- (Stable)
INE836B08046	Subordinated debt	Jul-29-2016	15.00%	Jun-30-2021	25.00	[ICRA]A- (Stable); withdrawn
INE836B08061	Subordinated debt	Dec-30-2015	15.50%	Apr-13-2022	25.00	[ICRA]A- (Stable); withdrawn
INE836B08095	Subordinated debt	Jun-28-2016	15.50%	Sep-28-2022	10.00	[ICRA]A- (Stable); withdrawn
INE836B08269[3]	Subordinated debt	Jun-29-2016	15.00%	Sep-30-2023	10.00	[ICRA]A- (Stable)
INE836B08277[4]	Subordinated debt	Jun-29-2016	15.00%	Sep-30-2023	10.00	[ICRA]A- (Stable)
INE836B08244[5]	Subordinated debt	Jun-29-2016	15.00%	Sep-30-2023	10.00	[ICRA]A- (Stable)
INE836B08251[6]	Subordinated debt	Jun-29-2016	15.00%	Sep-30-2023	10.00	[ICRA]A- (Stable)
NA	LT/ST fund-based bank facilities	NA	NA	NA	2,500	[ICRA]A- (Stable)/ [ICRA]A1

Source: Company

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
Satin Finserv Limited	100.00%	Full Consolidation
Satin Housing Finance Limited	100.00%	Full Consolidation

[3] *ISIN changed from INE836B08103*
[4] *ISIN changed from INE836B08111*
[5] *ISIN changed from INE836B08129*
[6] *ISIN changed from INE836B08137*

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