August 31, 2023

Satin Creditcare Network Ltd.: Ratings reaffirmed; rated amount enhanced

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; outstanding
Non-convertible debentures	75.00	75.00	[ICRA]A- (Stable); outstanding
Non-convertible debentures	500.00	500.00	[ICRA]A- (Stable); outstanding
Subordinated debt	40.00	40.00	[ICRA]A- (Stable); outstanding
Long-term/short-term fund-based term bank facilities programme	2,500.00	3,100.00	[ICRA]A- (Stable)/[ICRA]A1; Reaffirmed and assigned to enhanced amount
Long-term fund-based term loan facilities programme	40.00	7.66	[ICRA]A(CE) (Stable); outstanding
Total	**3,355.00**	**3,922.66**	

**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. Further, its healthy geographical diversification, experienced management team and diversified funding profile support its credit profile. SCNL reported consolidated assets under management (AUM) of Rs. 9,535 crore as on June 30, 2023, registering an annualised growth of ~20% in Q1 FY2024. It manages its portfolio via 1,310 branches spread across 407 districts in 24 states/Union Territories (UTs) in India as on June 30, 2023.

The ratings, however, factor in SCNL's moderate consolidated profitability in FY2023, given the sizeable credit costs booked in FY2023 because of higher-than-anticipated slippages from the restructured book, which came out of the moratorium in April 2022. Nonetheless, its profitability improved in Q1 FY2024 and is expected to remain healthy. It reported a consolidated profit of Rs. 88 crore (total comprehensive income; TCI of Rs. 76 crore) in Q1 FY2024 compared to Rs. 5 crore (TCI of negative Rs. 16 crore) in FY2023. SCNL's ability to contain its credit costs while improving its operational efficiency shall remain key for its profitability.

The ratings are also constrained by the high managed gearing[1] of 5.4 times as on June 30, 2023, though its reported total capital-to-risk weight ratio (CRAR) of 25.0% remained adequate as on June 30, 2023. ICRA notes that SCNL raised equity capital of Rs. 62 crore in FY2023 and Rs. 88 crore year-to-date (YTD) FY2024 and expects that the company will need to raise further capital in the medium term to support the growth plans of itself and its subsidiaries, while maintaining adequate cushion for future contingencies.

ICRA notes that SCNL's asset quality metrics remain subdued but have been improving on a sequential basis. ICRA expects the trend to continue. On the asset quality front, SCNL's gross monitorable book, which includes the standard restructured book of Rs. 23 crore, security receipts (SRs) of ~Rs. 75 crore (net SRs of Rs. 59 crore) and gross non-performing assets (GNPAs) of Rs. 155 crore, as on June 30, 2023, declined to 4.0% of the standalone on-book portfolio as on June 30, 2023 from ~25% as on March 31, 2022. In addition, SCNL was carrying adequate provision for the same and also witnessed recovery against bad debts in FY2023 and Q1 FY2024. The ratings continue to factor in the risks associated with the unsecured nature of microfinance

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

loans, the marginal borrower profile, which is susceptible to income shocks, and the political and operational risks inherent in the microfinance business.

The Stable outlook on the long-term rating reflects ICRA's opinion that SCNL will be able to maintain a steady credit profile, supported by its experienced management team, while expanding its scale of operations.

Key rating drivers and their description

Credit strengths

Established track record 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. 9,535 crore as on June 30, 2023 compared to Rs. 9,115 crore as on March 31, 2023, registering an annualised growth of ~20%. SCNL's standalone AUM grew ~24% (annualised) in Q1 FY2024 to Rs. 8,367 crore as on June 30, 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) and 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 multiple lenders. Its funding profile has improved steadily with term loans from banks and non-banking financial companies (NBFCs)/financial institutions (FIs) accounting for ~56%, outstanding non-convertible debentures (NCDs) for ~12% and assignment and other sources for the balance (~32%) as on June 30, 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 UTs across 407 districts through 1,310 branches (consolidated level) as on June 30, 2023. ICRA notes that the share of Uttar Pradesh (UP) in SCNL's standalone AUM has increased over the past few quarters, reaching 28% of its standalone AUM as on June 30, 2023 from 26% as on March 31, 2022. ICRA expects the share of UP to remain at the similar levels in line with the management's guidance. At the district level, ~96% of SCNL's districts had a share of less than 1% of the AUM as on June 30, 2023. 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 that currently have a lower share in the AUM.

Credit challenges

Moderate, albeit improving, asset quality and profitability metrics – SCNL reported standalone GNPAs of 2.5% on its on-book portfolio as on June 30, 2023 (3.3% as on March 31, 2023) compared to 8.0% as on March 31, 2022. The improvement was on account of substantial write-offs in FY2023 and Q1 FY2024. SCNL's standard restructured loan book declined to 0.4% of its standalone loan book as on June 30, 2023, driven by recoveries and write-offs. SCNL also had outstanding SRs of Rs. 75 crore (net SRs of Rs. 59 crore) as on June 30, 2023. Its total monitorable book (GNPA + SRs + standard restructured book) declined to 4.0% as on June 30, 2023 from ~25% as on March 31, 2022. ICRA notes that SCNL's portfolio (standalone) originated from July 2021 onwards constitutes ~96% of on-book microfinance portfolio with 90+ days past due (dpd) of 0.5% as on June 30, 2023. The company's ability to reduce/contain further slippages shall remain a key monitorable.

With elevated credit costs, SCNL's profitability had declined in FY2023. It reported a consolidated profit after tax (PAT) of Rs. 5 crore in FY2023 vis-à-vis Rs. 21 crore in FY2022. However, the profitability has been improving on a quarter-on-quarter basis and ICRA expects the trend to continue with the expectation of limited incremental credit costs. In Q1 FY2024, the company reported a consolidated PAT of Rs. 88 crore, translating into a return on managed assets (RoMA) of 3.2% and a return on net worth (RoNW) of 21.4%. The improvement in the profitability in Q1 FY2024 was supported by lower credit costs and the higher margin on account of the increase in the yield. The company's ability to maintain an adequate profitability profile on a consistent basis would remain a monitorable.

High managed gearing – SCNL's consolidated managed gearing[2] was 5.4 times as on June 30, 2023 (5.5 times in March 2023) compared to 5.0 times as on March 31, 2022. The increase was driven by higher funding to meet the growth plans. ICRA notes that the company has raised capital of around Rs. 88 crore YTD FY2024 (part of outstanding share warrants issued under preferential issue approved in January 2022). ICRA expects that additional capital would be required in the medium term 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, its 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 Covid-19 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 material lapses 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 an unencumbered cash and liquid balance of Rs. 742 crore as on June 30, 2023 with debt obligations (including interest) of Rs. 1,952 crore due over the next six months. Factoring in collections of Rs. 1,833 crore due over the next six months, SCNL's liquidity position is strong. In addition, the company unavailed sanctions of Rs. 897 crore as on June 30, 2023, which provides comfort.

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.

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

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 1,096 branches in the country as on June 30, 2023 on a standalone basis and 1,310 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 June 30, 2023, its consolidated AUM stood at Rs. 9,535 crore. On a consolidated basis, it reported a net profit of Rs. 88 crore in Q1 FY2024 (TCI of Rs. 76 crore) against Rs. 5 crore in FY2023 (TCI of negative Rs. 16 crore).

Key financial indicators (consolidated; audited)

Satin Creditcare Network Ltd.	FY2021	FY2022	FY2023	Q1 FY2024&
Accounting as per	**Ind AS**	**Ind AS**	**Ind AS**	**Ind AS**
Total income	1,374^	1,381	1,559	459^
Profit after tax	(14)	21	5	88
Net worth	1,452	1,548	1,594	1,691
Gross AUM	8,379	7,617	9,115	9,535
Total managed assets	10,667	9,636	10,595^	11,267
Return on average managed assets	-0.1%	0.2%	0.0%	3.2%
Return on average net worth	-1.0%	1.4%	0.3%	21.4%
On-book gearing (times)	4.3	3.7	3.7	3.9
Managed gearing (times)	5.9	5.0	5.5	5.4
GNPA (standalone)	8.4%	8.0%	3.3%	2.5%
NNPA (standalone)	4.7%	2.4%	1.5%	1.2%
Solvency (NNPA/Net worth; standalone)	17.8%	7.6%	4.4%	3.5%
CRAR (standalone)	25.3%	27.8%	26.6%	25.0%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore
&Q1 FY2024 values based on limited review financials and total income is adjusted for fair value loss(es); ^ Net of ECL
Managed gearing = (On-book debt + Off-book portfolio) / Net worth; Net worth is adjusted for goodwill
Total managed assets = Total off-balance sheet + ECL provision + Off-book portfolio – Goodwill

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
					Aug 31, 2023	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**	**[ICRA]A1**
2	**NCD programme**	Long term	25	0	**[ICRA]A- (Stable)**	**[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- (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	3,100	3,002.95	**[ICRA]A- (Stable)/ [ICRA]A1**	**[ICRA]A- (Stable)/ [ICRA]A1**	**[ICRA]A- (Negative)/ [ICRA]A1**					
5	**NCD programme**	Long term	50	50	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Negative)**					
6	**NCD programme**	Long term	500	-	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**						
7	**Subordinated debt**	Long term	-	-	-	**[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	150.00	[ICRA]A1
INE836B14275	**CP programme**	May-11-23	9.0%	Aug-10-23	50.00	[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)
INE836B08269	**Subordinated debt**	Jun-29-2016	15.00%	Sep-30-2023	10.00	[ICRA]A- (Stable)
INE836B08277	**Subordinated debt**	Jun-29-2016	15.00%	Sep-30-2023	10.00	[ICRA]A- (Stable)
INE836B08244	**Subordinated debt**	Jun-29-2016	15.00%	Sep-30-2023	10.00	[ICRA]A- (Stable)
INE836B08251	**Subordinated debt**	Jun-29-2016	15.00%	Sep-30-2023	10.00	[ICRA]A- (Stable)
NA	**LT/ST fund-based bank facilities**	June 2018 to June 2023	10% to 12.5%	July 2023 to July 2026	3,100	[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

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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