December 27, 2023

Satin Housing Finance Limited: [ICRA]A- (Stable) assigned to bank facilities programme

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based bank facilities	200.00	[ICRA]A- (Stable); assigned
Total	**200.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating factors in the strength enjoyed by Satin Housing Finance Limited (SHFL) as a wholly-owned subsidiary of Satin Creditcare Network Ltd. (SCNL; rated [ICRA]A (Stable)/[ICRA]A1). While SCNL's management's involvement in SHFL is limited, SHFL enjoys board-level guidance in the form of common directors, including Mr. H P Singh (promotor of SCNL). The rating also factors in SHFL's adequate capitalisation, with a total capital-to-risk weighted assets ratio (CRAR) of 53.1% and a managed gearing[1] of 2.5 times as on September 30, 2023. SHFL's capitalisation profile is supported by regular capital infusions from SCNL. ICRA expects that SCNL will continue to support SHFL's growth plans, providing sufficient cushion for any future uncertainty.

The rating is, however, constrained by SHFL's relatively moderate scale of operations and limited track record of around six years, with an evolving profitability profile. Further, its portfolio lacks seasoning and the performance of the same needs to be seen over a longer period of time. SHFL reported assets under management (AUM) of Rs. 567 crore as on September 30, 2023, managed via 37 branches in four states. It witnessed a compound annual growth rate (CAGR) of ~50% in its AUM from March 2020 to September 2023. ICRA expects the growth to remain healthy in the near-to-medium term, though the operations are expected to remain geographically concentrated. ICRA also notes that SHFL shall need to diversify its funding relations and raise debt funds to support its growth plans. As on September 30, 2023, SHFL's funding profile comprised loans from non-banking financial companies (NBFCs; ~71%), followed by banks (~16%) and National Housing Bank (NHB; ~13%).

ICRA notes that though SHFL had low gross non-performing assets (GNPAs) of 0.8% as on September 30, 2023, the same shall remain a monitorable. Since the underlying borrower segment remains vulnerable to income shocks, the company's ability to engage with customers and improve its systems and controls continuously to maintain the asset quality remains critical.

The Stable outlook on the long-term rating reflects ICRA's opinion that SHFL will be able to maintain a steady credit profile, while expanding its scale of operations and maintaining/improving its profitability, along with the expectation of continued parent support in the form of equity and debt funding.

Key rating drivers and their description

Credit strengths

Credit profile supported by parentage – The company enjoys board-level guidance from its parent – SCNL. Further, it enjoys financial support in the form of timely capital infusions from SCNL along with debt funding lines. ICRA takes comfort that SCNL does not intend to bring down its stake in SHFL in the near-to-medium term and is expected to continue supporting the company by way of board-level guidance and funding. Further, SHFL can potentially leverage SCNL's diversified lending relationships to support its growth plans.

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

Adequate capitalisation – SHFL has adequate capitalisation metrics for its current scale along with cushions for its near-term growth plans. It reported a CRAR of 53.1% as on September 30, 2023 vis-à-vis 46.4% in March 2023, while its managed gearing stood at 2.5 times as on September 30, 2023 (2.6 times as on March 31, 2023). Its capitalisation is primarily supported by timely capital infusions by the parent. SCNL infused Rs. 25 crore in Q2 FY2024 and is expected to continue providing support, going forward as well.

Credit challenges

Nascent operations resulting in evolving profitability and asset quality metrics – SHFL started operations in February 2018 and has grown its AUM to Rs. 567 crore as on September 30, 2023 (around Rs. 505 crore as on March 31, 2023). Though the company has grown at a healthy pace, with a CAGR of ~50% during March 2020 to September 2023, its scale remains relatively small. Further, its operations remain geographically concentrated in four states of northern India. Given the nascent stage of operations and the management's plans to focus on the existing geographies in the near term, the geographical concentration is expected to remain high. Furthermore, SHFL's profitability and asset quality metrics are still evolving. Its ability to manage its asset quality and hence the credit cost and overall operational efficiency, as it scales up, shall be key for its credit profile.

SHFL reported GNPA of 0.8% as on September 30, 2023 (provisional) compared to 0.3% as on March 31, 2023. Nonetheless, the average loan-to-value (LTV) of around 50-60% for SHFL's loan book (at the time of origination) mitigates the risk to a certain extent.

Unseasoned portfolio with relatively vulnerable borrower profile – SHFL operates in the affordable housing finance segment {offering home loans (HL) and loan against property (LAP)} and also offers microloans in the HL and LAP segments to a relatively vulnerable borrower segment, given their low-to-middle-income profile. Most of the borrowers work in small private enterprises or proprietorships and remain vulnerable to economic cycles with limited income buffers to absorb income shocks. The losses on default are expected to be limited, considering the secured nature of the portfolio with moderate LTV ratios. However, the company's ability to manage the asset quality profile, control slippages and manage recoveries from its overdues will remain important from a credit perspective. ICRA also notes that the loan book is unseasoned as disbursements made in the last six quarters (Q1 FY2023 to Q2 FY2024) stood at ~81% of the AUM as on September 30, 2023. Hence, its performance over a longer period remains a monitorable.

Liquidity position: Adequate

SHFL had adequate on-book liquidity of Rs. 44 crore as on September 30, 2023, as per its asset-liability management (ALM) statement. Apart from this, it had unavailed sanctioned lines of ~Rs. 110 crore (including Rs. 30 crore from SCNL). Against this, it has debt obligations of Rs. 67 crore due over the 6-month period of October 2023 to March 2024 and estimated collections of Rs. 84 crore.

Rating sensitivities

Positive factors – ICRA could upgrade SHFL's rating if it is able to report a healthy growth in its scale of operations while maintaining its asset quality and capitalisation profile and improving its profitability profile. Also, an improvement in SCNL's credit profile could have a positive impact on the rating/outlook.

Negative factors – Any material change in the expected support from SCNL and/or a change in SCNL's credit profile would impact the rating. Further, pressure on the rating could arise if there is a deterioration in the scale and/or asset quality, thereby affecting the profitability, or a material weakening of the capitalisation profile.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating approach – Implicit parent or group support Rating methodology for non-banking finance companies
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

SHFL is an NBFC-housing finance company (HFC) and a wholly-owned subsidiary of SCNL. It offers HL, LAP, micro-HL and micro-LAP. It had operations in four states as on September 30, 2023 and reported an AUM of Rs. 567 crore. On a standalone basis, it reported a net profit of Rs. 3 crore in H1 FY2024 (total comprehensive income (TCI) of Rs. 5 crore) against Rs. 6 crore in FY2023 (TCI of negative Rs. 4 crore).

SCNL is an NBFC-microfinance institution (NBFC-MFI), primarily offering joint liability group loans to women borrowers. It operates through 1,335 branches spreads across 24 States/Union Territories on a consolidated basis. Apart from SHFL, SCNL has another wholly-owned subsidiary – Satin Finserv Limited (SFL).

Key financial indicators

Satin Housing Finance Limited (audited; standalone)	FY2021	FY2022	FY2023	H1 FY2024*
Accounting as per	**IndAS**	**IndAS**	**IndAS**	**IndAS**
Total income	30	38	62	41
Profit after tax	1	3	6	3
Net worth	93	101	146	175
AUM	226	318	505	567
Total managed assets	252	341	527	620
RoMA	0.6%	1.0%	1.4%	1.0%
RoNW	1.6%	3.1%	4.8%	3.5%
On-book gearing (times)	1.5	2.1	2.3	2.1
Managed gearing (times)	1.7	2.3	2.6	2.5
Gross NPA	0.0%	0.0%	0.3%	0.8%
Net NPA	0.0%	0.0%	0.3%	0.6%
Solvency (Net NPA/Net worth)	0.0%	0.0%	0.9%	1.8%
CRAR	90.2%	60.7%	46.4%	53.1%

*Source: Company, ICRA Research; * Limited review numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

Status of non-cooperation with previous CRA: Not applicable

Any other information:

SHFL 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 rating 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 Nov 30, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Dec 27, 2023	NA	NA	NA
1	**Fund-based bank facilities programme**	Long term	200	-	**[ICRA]A- (Stable)**	**NA**	**NA**	**NA**

Complexity level of the rated instruments

Instrument	Complexity Indicator
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
NA	**LT fund-based bank facilities**	NA	NA	NA	200	[ICRA]A- (Stable)

Source: Company; NA - Not available

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

Annexure II: List of entities considered for consolidated analysis: Not applicable

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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