January 08, 2024

Satin Finserv Limited: [ICRA]A- (Stable) assigned to Rs. 60-crore NCD programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based bank facilities	80.00	80.00	[ICRA]A- (Stable); outstanding
NCD programme	-	60.00	[ICRA]A- (Stable); assigned
Total	**80.00**	**140.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating factors in the strength enjoyed by Satin Finserv Limited (SFL) as a wholly-owned subsidiary of Satin Creditcare Network Ltd. (SCNL; rated [ICRA]A (Stable)/[ICRA]A1). While SCNL's management's involvement in SFL is limited, it enjoys board-level guidance in the form of common directors, including Mr. H P Singh (promotor of SCNL). The rating also factors in SFL's adequate capitalisation for the current level of operations, with a total capital-to-risk weighted assets ratio (CRAR) of 46.6% and a managed gearing[1] of 4.5 times as on March 31, 2023 (managed gearing of 3.0 times as on September 30, 2023). SFL's capitalisation profile is supported by timely capital infusions from SCNL. ICRA expects that SCNL will continue to support SFL's growth plans as and when required.

The rating is, however, constrained by SFL's moderate scale of operations, asset quality and profitability metrics. SFL reported assets under management (AUM) of Rs. 638 crore as on September 30, 2023, down ~12% (annualised) in H1 FY2024. ICRA expects the growth to remain moderate in the near term as the business correspondent (BC) book is expected to decline. ICRA also notes that SFL shall need to diversify its funding relations and raise debt funds to support its growth plans. As on September 30, 2023, SFL's funding profile comprised the BC book (~69%), followed by loans from non-banking financial companies (NBFCs; ~19%) and banks, SCNL and securitisation (remaining ~12%).

Moreover, 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. SFL reported gross non-performing assets (GNPAs) of 4.7% as on September 30, 2023 vis-à-vis 5.4% in March 2022 (4.6% in March 2023). Furthermore, SFL's wholesale lending book is partially unsecured in nature and has relatively higher ticket size loans. ICRA also notes that the BC book has high 90+ days past due (dpd) on which some lenders have invoked the first loss default guarantee (FLDG) while some FLDG can be invoked by its BC partners. ICRA also notes that SFL's management is in the process of strengthening its recovery mechanism to improve its asset quality metrics and its ability to do so and maintain adequate asset quality metrics shall be key for its credit profile. SFL's profitability metrics remain moderate primarily on account of higher credit costs and low operational efficiency, which have led to higher operating expenses (opex).

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

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

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 SFL in the near-to-medium term and is expected to continue supporting the company by way of board-level guidance and funding. Further, SFL can potentially leverage SCNL's diversified lending relationships to support its growth plans.

Adequate capitalisation for current scale of operations – SFL has adequate capitalisation metrics for its current scale along with cushions for its near-term growth plans. It reported a CRAR of 46.6% as on March 31, 2023 vis-à-vis 54.5% in March 2022, while its managed gearing stood at 4.5 times in March 2023 (3.0 times in September 2023) against 6.4 times in March 2022. Its capitalisation is primarily supported by timely capital infusions by its parent and the decline in its AUM. SCNL infused Rs. 40 crore in Q2 FY2024 and is expected to continue providing support as and when required.

Credit challenges

Moderate scale of operations – SFL started operations in March 2019 and its AUM stood at Rs. 638 crore as on September 30, 2023 vis-à-vis Rs. 682 crore in March 2023 (Rs. 890 crore in March 2022). The decline was primarily on account of the decrease in the BC book, which was acquired under the merger with SCNL's erstwhile subsidiary, Taraashna Financial Services Limited (Taraashna), in January 2023. However, its on-book portfolio has witnessed growth, supported by the onboarding of new borrowers.

Moderate asset quality and relatively vulnerable borrower profile – SFL reported GNPAs of 4.7% as on September 30, 2023 vis-à-vis 5.4% in March 2022 (4.6% in March 2023). Additionally, its wholesale lending book is partially unsecured in nature and has relatively higher ticket size loans; thus, the performance remains a monitorable. ICRA also notes that the BC book has high 90+ dpd on which some additional FLDG can be invoked by the BC partners. Nonetheless, these risks are somewhat mitigated as the company is carrying adequate provisions for its on-book GNPAs as well as towards the FLDG. Moreover, its wholesale borrowers have a multicycle track record with SCNL and/or SFL. Further, ICRA notes that SFL's management is in the process of strengthening its recovery mechanism, which is expected to improve its asset quality metrics gradually.

Moreover, 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 enhance the asset quality remains critical. However, ICRA notes that SFL's retail customers have a credit history and track record of at least two cycles with SCNL.

Elevated credit cost and opex impacting profitability metrics – SFL's profitability profile remains moderate on account of elevated credit costs and the high opex ratio. SFL reported a profit after tax (PAT) of Rs. 2.3 crore in H1 FY2024 (provisional), translating into a return on average managed assets (RoMA) of 0.6% (annualised) and a return on average net worth (RoNW) of 2.9% (annualised). The credit cost, with respect to average managed assets (AMA), stood at 1.1% (including FLDG provisioning and invocation) in H1 FY2024 while the opex to AMA ratio was 9.8%. ICRA notes that the management has taken steps to improve the operational efficiency and strengthen the recovery process so that these two costs can be brought down. However, the materialisation of the same remains to be seen.

Liquidity position: Adequate

SFL had adequate on-book liquidity of Rs. 67 crore as on September 30, 2023, as per its asset-liability management (ALM) statement. Apart from this, it had unavailed sanctioned lines of ~Rs. 70 crore (including Rs. 60 crore from SCNL). Against this, SFL has debt obligations of Rs. 48 crore due over the 6-month period of October 2023 to March 2024 and estimated collections of Rs. 46 crore.

Rating sensitivities

Positive factors – ICRA could upgrade SFL's rating if it is able to report a healthy growth in its scale of operations, with an improvement in its asset quality and profitability profile, while maintaining a prudent capitalisation 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 weakening the profitability profile, 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

SFL is an NBFC and a wholly-owned subsidiary of SCNL. It offers micro, small and medium enterprise (MSME) loans (retail and wholesale) and loans to joint liability groups (JLGs) for its BC partners. It had operations in 10 states as on September 30, 2023 and reported an AUM of Rs. 638 crore. On a standalone basis, it reported a net profit of Rs. 2 crore in H1 FY2024 (total comprehensive income (TCI) of Rs. 3 crore) against Rs. 6 crore in FY2023 (TCI of Rs. 6 crore).

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

Key financial indicators

Satin Finserv Limited (audited; standalone)	FY2021	FY2022	FY2023	H1 FY2024*
Accounting as per	**IndAS**	**IndAS**	**IndAS**	**IndAS**
	Pre-merger	**Post-merger**	**Post-merger**	**Post-merger**
Total income	25	97	107	58
Profit after tax	5	-20	6	2
Net worth	106	132	138	180
AUM	131	890	682	638
Total managed assets	141	990	785	738
RoMA	3.5%	-3.5%^	0.7%	0.6%
RoNW	4.6%	-16.9%^	4.5%	2.9%
On-book gearing (times)	0.3	0.9	1.2	0.9
Managed gearing (times)	0.3	6.4	4.5	3.0
Gross NPA	1.5%	5.4%	4.6%	4.7%
Net NPA	0.7%	3.3%	2.3%	2.8%
Solvency (Net NPA/Net worth)	0.9%	4.1%	3.7%	4.2%
CRAR	80.2%	54.5%	46.6%	NA

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

Pre-merger and post-merger refer to the pre- and post-merger situation of Taraashna with SFL
^For ratios based on AMA and average net worth, average is of closing value of post-merger balance sheet of current fiscal and closing value of pre-merger balance sheet of previous fiscal

Status of non-cooperation with previous CRA: Not applicable

Any other information:

SFL 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.

Due to the merger, SFL was not fulfilling the Principal Business Criteria (PBC) laid down by the Reserve Bank of India (RBI) for NBFCs for FY2023. As per the criteria, at least 50% of the total assets of the company should be financial assets, which SFL was compliant with. Further, the criteria requires at least 50% of the gross income to be from financial activities, which SFL was not compliant with as the BC income of the erstwhile Taraashna distorted the ratio. Nonetheless, the RBI, vide its letter dated July 22, 2022, has granted SFL time till March 31, 2024 for fulfilling the said criteria. SFL's auditor's opinion in respect of this matter is not modified. SFL's management informed that the company has been compliant with the PBC requirement from Q1 FY2024.

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
					Jan 8, 2024	Dec 27, 2023	NA	NA	NA
1	**Fund-based bank facilities programme**	Long term	80	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	NA	NA	NA
2	**NCD programme**	Long term	60	-	[ICRA]A- (Stable)	-	NA	NA	NA

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based bank facilities programme	Simple
NCD 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	80	[ICRA]A- (Stable)
Yet to be issued	**Non-convertible debenture**	NA	NA	NA	60	[ICRA]A- (Stable)

Source: Company; NA – Not applicable

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:

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