

March 20, 2024

Satin Housing Finance Limited: [ICRA]A- (Stable) assigned to Subordinated programme; Rating reaffirmed and rated amount enhanced for bank facilities programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based bank facilities	200.00	450.00	[ICRA]A- (Stable); reaffirmed/assigned; rated amount enhanced
Subordinated debt programme	-	25.00	[ICRA]A- (Stable); assigned
Total	200.00	475.00	

*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 the involvement of SCNL's management in SHFL is limited, the latter enjoys board-level guidance in the form of common directors, including Mr. H P Singh (promotor of SCNL). The rating also considers SHFL's adequate capitalisation, with a total capital-to-risk weighted assets ratio (CRAR) of 49.5% and a managed gearing¹ of 2.6 times as on December 31, 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. 607 crore as on December 31, 2023, managed via 38 branches in four states. It witnessed a compound annual growth rate (CAGR) of ~48% in its AUM from March 2020 to December 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 December 31, 2023, SHFL's funding profile comprised loans from non-banking financial companies (NBFCs; ~61%), followed by banks (~21%), National Housing Bank (NHB; ~13%) and non-convertible debentures (~6%).

ICRA notes that though SHFL had low gross non-performing assets (GNPAs) of 1.1% as on December 31, 2023 (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.

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 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.

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 49.5% as on December 31, 2023 vis-à-vis 46.4% in March 2023, while its managed gearing stood at 2.6 times as on December 31, 2023 (2.6 times as on March 31, 2023). Its capitalisation is primarily supported by timely capital infusions by the parent. SCNL infused Rs. 40 crore in 9M 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. 607 crore as on December 31, 2023 (around Rs. 505 crore as on March 31, 2023). Though the company has grown at a healthy pace, with a CAGR of ~48% during March 2020 to December 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. While ICRA notes that the management plans to enter another state in FY2025, diversification is expected to be gradual.

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 1.1% as on December 31, 2023 (provisional) compared to 0.3% as on March 31, 2023. Nonetheless, the average loan-to-value (LTV) of around 50-60% for the 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 provides 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 seven quarters (Q1 FY2023 to Q3 FY2024) stood at ~92% of the AUM as on December 31, 2023. Hence, its performance over a longer period remains a monitorable.

Liquidity position: Adequate

SHFL had adequate on-book liquidity of Rs. 42 crore as on December 31, 2023, as per its asset-liability management (ALM) statement. Apart from this, it had unavailed sanctioned lines of ~Rs. 100 crore (including Rs. 20 crore from SCNL). Against this, it has debt obligations of Rs. 75 crore due over the six-month period of January 2024 to June 2024 and estimated collections of Rs. 83 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 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 December 31, 2023 and reported an AUM of Rs. 607 crore. On a standalone basis, it reported a net profit of Rs. 5 crore in 9M FY2024 (total comprehensive income (TCI) of Rs. 9 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 1,386 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)	FY2022	FY2023	9M FY2024*
Accounting as per	IndAS	IndAS	IndAS
Total income	38	62	65
Profit after tax	3	6	5
Total managed assets	341	527	664
Return on average managed assets	1.0%	1.4%	1.2%
Managed gearing (times)	2.3	2.6	2.6
Gross NPA	0.0%	0.3%	1.1%
CRAR	60.7%	46.4%	49.5%

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 Feb 29, 2024 (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Mar 20, 2024	Dec 27, 2023			
1	Fund-based bank facilities programme	Long term	450	406.26	[ICRA]A-(Stable)	[ICRA]A-(Stable)	NA	NA	NA
2	Subordinated debt	Long term	25	20	[ICRA]A-(Stable)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based bank facilities programme	Simple
Subordinated debt 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	Mar 2019 to Feb 2024	8.00% to 14.50%	May 2024 to Apr 2033	450	[ICRA]A- (Stable)
INE02YC08016	Subordinated debt	Dec-17-2019	14.0%	Dec-31-2026	20	[ICRA]A- (Stable)
Not placed yet	Subordinated debt	NA	NA	NA	5	[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

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

A M Karthik
+91 44 4596 4308
a.karthik@icraindia.com

Prateek Mittal
+91 33 7150 1132
prateek.mittal@icraindia.com

Jatin Arora
+91 124 4545 846
jatin.arora@icraindia.com

Arpit Agarwal
+91 124 4545 873
arpit.agarwal@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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