August 28, 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 bank facilities (others)	80.0	80.0	[ICRA]A- (Stable); outstanding
NCD programme	60.0	60.0	[ICRA]A- (Stable); outstanding
NCD programme	0.0	60.0	[ICRA]A- (Stable); assigned
Total	**140.0**	**200.0**	

**Instrument details are provided in Annexure I*

Rationale

The rating factors in Satin Finserv Limited's (SFL) adequate capitalisation profile with a capital-to-risk weighted assets ratio (CRAR) of 44.9% and a managed gearing[1] of 1.9 times as on June 30, 2024, supported by regular capital infusions by Satin Creditcare Network Limited (SCNL; rated [ICRA]A (Stable)/[ICRA]A1). The rating continues to consider the strength enjoyed by SFL as a wholly-owned subsidiary of SCNL. 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). ICRA expects that SCNL will continue to support SFL's growth plans in the form of board-level guidance and funding (debt and equity), as and when required.

The rating is, however, constrained by SFL's moderate scale of operations, asset quality and profitability metrics. The company reported assets under management (AUM) of Rs. 452 crore (Rs. 353 crore of on-book portfolio) as on June 30, 2024 against Rs. 682 crore (Rs. 226 crore of on-book portfolio) in March 2023. ICRA expects the growth to remain moderate in the near term as the business correspondent (BC) book runs down. ICRA also notes that SFL shall need to diversify its funding relations to support its growth plans. As on June 30, 2024, SFL's funding profile comprised loans from non-banking financial companies (NBFCs; ~41%), BC portfolio (~28%), non-convertible debentures (NCDs; ~13%), securitisation (~9%) and loans from banks (~8%).

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 June 30, 2024 (4.3% as on March 31, 2024) vis-à-vis 4.6% in March 2023. Furthermore, its wholesale lending book is partially unsecured in nature and has relatively higher ticket size loans. ICRA notes that SFL's borrowers have a track record of around two loan cycles and the share of the wholesale lending book has also been declining gradually, providing some comfort. ICRA also notes that SFL's management is in the process of strengthening its systems and processes to improve its operational efficiency and asset quality metrics; its ability to do so and maintain adequate asset quality metrics shall be key for its credit profile. The company's profitability metrics remain moderate primarily on account of higher credit costs and elevated operating expenses (opex) because of lower operational efficiency.

The Stable outlook on the long-term rating reflects ICRA's opinion that SFL will be able to maintain a steady credit profile, aided by adequate capitalisation while expanding its scale of operations and improving its profitability, along with the expectation of continued support from the parent 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 reduce 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 – SFL has adequate capitalisation metrics for its current scale along with cushions for its near-term growth plans. It reported a CRAR of 44.9% as on June 30, 2024 vis-à-vis 46.6% in March 2023, while its managed gearing stood at 1.9 times in June 2024 (2.4 times in March 2024) against 4.5 times in March 2023. Its capitalisation is primarily supported by timely capital infusions by its parent and the decline in its AUM. SCNL infused Rs. 40-crore equity capital in SFL in 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. 452 crore as on June 30, 2024 (Rs. 501 crore as on March 31, 2024) vis-à-vis Rs. 682 crore in March 2023. 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 March 2023. However, the on-book portfolio has witnessed growth, supported by the onboarding of new borrowers. The company reported an on-book portfolio of Rs. 353 crore as on June 30, 2024 (Rs. 326 crore as on March 31, 2024) against Rs. 226 crore in March 2023.

Moderate asset quality and relatively vulnerable borrower profile – SFL reported GNPAs of 4.7% as on June 30, 2024 (4.3% as on March 31, 2024) vis-à-vis 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. Nonetheless, these risks are somewhat mitigated as the company is carrying adequate provisions for its on-book GNPAs as well as towards the first loss default guarantee (FLDG) for the BC portfolio. 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.

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 costs and opex impacting profitability metrics – SFL's profitability profile remains moderate on account of elevated credit costs and the high opex ratio. It reported a profit after tax (PAT) of Rs. 1.7 crore in Q1 FY2025 (provisional), translating into a return on average managed assets (RoMA) of 1.1% (annualised) and a return on average net worth (RoNW) of 3.6% (annualised) against Rs. 5.1 crore, 0.7% and 3.2%, respectively, in FY2024 (Rs. 6.1 crore, 0.7% and 4.5%, respectively, in FY2023). Credit costs, with respect to average managed assets (AMA), stood at 1.4% (annualised) in Q1 FY2025 against 0.5% in FY2024 while the opex to AMA ratio was 11.6% (annualised) against 11.8% in FY2024. 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 reduced. However, the materialisation of the same remains to be seen.

Liquidity position: Adequate

SFL had adequate on-book liquidity of Rs. 34 crore as on June 30, 2024, as per its provisional asset-liability management (ALM) statement. Apart from this, it had unavailed sanctioned lines of ~Rs. 31 crore (including Rs. 30 crore from SCNL). Against this, SFL has debt obligations of Rs. 105 crore due over the 12-month period of July 2024 to June 2025 and estimated collections of Rs. 133 crore.

Rating sensitivities

Positive factors – A healthy growth in SFL's scale of operations, with an improvement in its asset quality and profitability profile, while maintaining a prudent capitalisation profile could positively impact the rating. Also, an improvement in SCNL's credit profile could positively impact the rating.

Negative factors – A material change in the expected support from SCNL and/or a deterioration in the parent's credit profile could negatively impact the rating. Further, pressure on the rating could arise on a sustained 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	Non-banking Finance Companies
Parent/Group support	The rating factors in the high likelihood of support from SCNL (parent company), given the shared brand name, operational and financial support already being extended to SFL.
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). It had operations in 11 states as on June 30, 2024 and reported an AUM of Rs. 452 crore. On a standalone basis, it reported a net profit of Rs. 5 crore in FY2024 (total comprehensive income (TCI) of Rs. 5 crore) against Rs. 6 crore in FY2023 (TCI of Rs. 6 crore).

SCNL is an NBFC-microfinance institution (NBFC-MFI), primarily offering joint liability group (JLG) loans to women. It operates through 1,447 branches spreads across 27 States/Union Territories on a consolidated basis. Apart from SFL, SCNL has another wholly-owned subsidiary – Satin Housing Finance Limited (SHFL).

Key financial indicators (audited)

Satin Finserv Limited	FY2023	FY2024	Q1 FY2025^
Total income	107	121	30
PAT	6	5	2
Total managed assets	791	643	570
Return on managed assets	0.7%	0.7%	1.1%
Managed gearing	4.5x	2.4x	1.9x
Gross NPA	4.6%	4.3%	4.7%
CRAR	46.6%	48.0%	44.9%

Source: Company, ICRA Research; All ratios as per ICRA's calculations and estimates; Amount in Rs. crore; ^ Limited review financials for Q1 FY2025

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.

Rating history for past three years

Current (FY2025)				Chronology of rating history for the past 3 years					
			FY2025	FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Aug 28, 2024	Date	Rating	Date	Rating	Date	Rating
Bank facilities	Long term	80.0	[ICRA]A- (Stable)	Jan-08-2024	[ICRA]A- (Stable)	-	-	-	-
				Dec-27-2023	[ICRA]A- (Stable)				
NCD programme	Long term	120.0	[ICRA]A- (Stable)	Jan-08-2024	[ICRA]A- (Stable)	-	-	-	-
				Dec-27-2023	-				

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term bank facilities (others)	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
Not issued yet	**NCD programme**	NA	NA	NA	75.0	[ICRA]A- (Stable)
INE03K307033	**NCD programme**	Jun-28-2024	10.85%	Jun-28-2026	25.0	[ICRA]A- (Stable)
INE03K307025	**NCD programme**	Mar-04-2024	10.85%	Sep-04-2025	20.0	[ICRA]A- (Stable)
NA	**Long-term bank facilities (others)**	Sep-2017 to Feb-2024	NA	NA	80.0	[ICRA]A- (Stable)

Source: Company

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.

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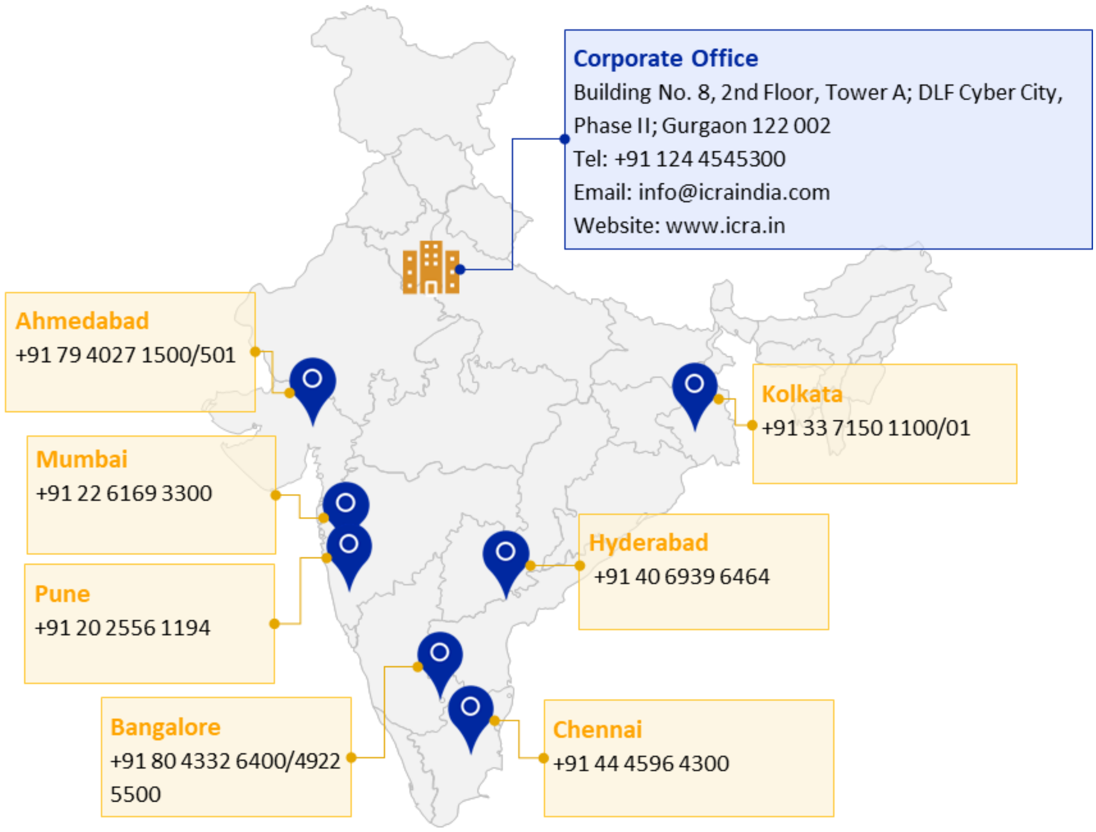

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