September 02, 2024

Satin Housing Finance Limited: [ICRA]A- (Stable) assigned to Rs. 50-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 (others)	450.0	450.0	[ICRA]A- (Stable); outstanding
Subordinated programme	25.0	25.0	[ICRA]A- (Stable); outstanding
NCD programme	0.0	50.0	[ICRA]A- (Stable); assigned
Total	**475.0**	**525.0**	

**Instrument details are provided in Annexure I; NCD – Non-convertible debentures*

Rationale

The rating factors in Satin Housing Finance Limited's (SHFL) adequate capitalisation profile with a capital-to-risk weighted assets ratio (CRAR) of 49.8% and a managed gearing[1] of 2.8 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 SHFL as a wholly-owned subsidiary of SCNL. While SCNL's management's involvement in SHFL 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 SHFL's growth plans in the form of board-level guidance and capital infusions, as and when required.

The rating is, however, constrained by SHFL's moderate scale of operations and limited operational track record of around six years with an evolving earnings profile. The company reported assets under management (AUM) of Rs. 769 crore as on June 30, 2024 (Rs. 756 crore as on March 31, 2024), managed through a network of 37 branches spread across four states. Its AUM increased at a compound annual growth rate (CAGR) of ~50% during March 2020 to June 2024. ICRA expects the growth to remain high 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 in a timely manner to sustain and support its growth plans.

Further, its portfolio lacks seasoning and the performance of the same needs to be seen over a longer period of time. ICRA notes that though SHFL had low gross non-performing assets (GNPAs) of 1.4% as on June 30, 2024 (0.8% as of March 2024), the same remains 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, 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 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 49.8% as on June 30, 2024 vis-à-vis 46.4% in March 2023, while its managed gearing stood at 2.8 times as on June 30, 2024 (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 equity capital in SHFL in FY2024 and Rs. 35 crore in August 2024. It 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. 769 crore as on June 30, 2024 from ~Rs. 505 crore as on March 31, 2023. Though the scale has increased at a high pace, with a CAGR of ~50% during March 2020 to June 2024, it remains relatively small. Further, the operations remain geographically concentrated in four states of northern India. ICRA takes note of SHFL's growth plans and expects the pace of growth to remain high with gradual diversification of operations. Given the nascent stage of operations, the earnings profile is still evolving with the company reporting a modest profit of ~Rs. 1 crore in Q1 FY2025 (Rs. 9 crore in FY2024).

Furthermore, SHFL's 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. The company reported GNPAs of 1.4% as on June 30, 2024 compared to 0.8% in March 2024 (0.3% as on March 31, 2023).

Unseasoned portfolio with relatively vulnerable borrower profile – Given the nascent stage of operations, SHFL's portfolio remains unseasoned. Disbursements made in the last eight quarters (Q2 FY2023 to Q1 FY2025) stood at ~102% of the AUM as on June 30, 2024, and its performance over a longer period remains a monitorable. Further, SHFL operates in the affordable housing finance segment {offering home loans (HLs) and loan against property (LAP)} 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 loan-to-value ratios (LTV; average LTV of 50-60%). However, the company's ability to manage the asset quality profile, control slippages and manage recoveries from its overdue accounts will remain important from a credit perspective.

Liquidity position: Adequate

SHFL had adequate on-book liquidity of Rs. 47 crore as on June 30, 2024, as per its asset-liability management (ALM) statement. Apart from this, it had unavailed sanctioned lines of ~Rs. 50 crore. Against this, it has debt obligations of Rs. 187 crore due over the 12-month period of July 2024 to June 2025 and estimated collections of Rs. 199 crore.

Rating sensitivities

Positive factors – A healthy growth in SHFL's scale of operations, with an improvement in its profitability profile, while maintaining prudent capitalisation and asset quality 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 being extended to SHFL.
Consolidation/Standalone	Standalone

About the company

SHFL is a non-banking financial company-housing finance company (NBFC-HFC) and a wholly-owned subsidiary of SCNL. It offers HLs, LAP, micro-HLs and micro-LAP. It had operations in four states as on June 30, 2024 and reported an AUM of Rs. 769 crore. On a standalone basis, it reported a net profit of ~Rs. 9 crore in FY2024 (total comprehensive income (TCI) of Rs. 15 crore) against Rs. 6 crore in FY2023 (TCI of negative Rs. 4 crore). It reported a profit after tax (PAT) of ~Rs. 1 crore and TCI of Rs. 2 crore in Q1 FY2025.

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 SHFL, SCNL had another wholly-owned subsidiary – Satin Finserv Limited (SFL), as on June 30, 2024.

Key financial indicators (audited)

Satin Housing Finance Limited	FY2023	FY2024	Q1 FY2025^
Total income	62	92	23
PAT	6	9	1
Total managed assets	531	813	839
Return on managed assets	1.4%	1.3%	0.2%
Managed gearing (times)	2.6	2.8	2.8
Gross NPA	0.3%	0.8%	1.4%
CRAR	46.4%	48.7%	49.8%

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:

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

				Chronology of rating history for the past 3 years					
Current (FY2025)									
FY2025				**FY2024**		**FY2023**		**FY2022**	
Instrument	**Type**	**Amount rated (Rs. crore)**	**Sep-02- 2024**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Fund-based bank facilities (others)	Long term	450.0	[ICRA]A- (Stable)	Dec-27-2023	[ICRA]A- (Stable)	-	-	-	-
				Mar-20-2024	[ICRA]A- (Stable)				
Subordinated debt	Long term	25.0	[ICRA]A- (Stable)	-	-	-	-	-	-
				Mar-20-2024	[ICRA]A- (Stable)				
NCD programme	Long term	50.0	[ICRA]A- (Stable)	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based bank facilities (others)	Simple
NCD programme	Simple
Subordinated debt	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	50.0	[ICRA]A- (Stable)
INE02YC08016	**Subordinated debt**	Dec-17-2019	14.00%	Dec-31-2026	20.0	[ICRA]A- (Stable)
Not issued yet	**Subordinated debt**	NA	NA	NA	5.0	[ICRA]A- (Stable)
NA	**Long-term bank facilities (others)**	Mar 2019 to Jul 2024	8.00% to 14.50%	May 2024 to Jul 2026	450.0	[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.

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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