

August 04, 2020

## Satin Creditcare Network Ltd.: [ICRA]A-(Stable) assigned

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture programme	0.00	25.00	[ICRA]A-(Stable); assigned
Commercial paper programme	200.00	200.00	[ICRA]A1; outstanding
Subordinated debt programme	128.00	128.00	[ICRA]A-(Stable); outstanding
Non-convertible debenture programme	130.00	130.00	[ICRA]A-(Stable); outstanding
<b>Total</b>	<b>458.00</b>	<b>483.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The assigned rating factors in Satin Creditcare Network Limited's (SCNL) leading position in the MFI segment, diversified funding profile and strong liquidity position. SCNL continues to benefit from the shorter tenure of its assets primarily because its portfolio largely comprises microfinance loans with a tenure of ~24 months, shorter than the tenure of its liabilities. This has resulted in cumulative surpluses across various maturity buckets. Though the inflows from advances have been adversely impacted in the microfinance segment and consequently for SCNL, the company has maintained high on-balance sheet liquidity (Rs. 1,642-crore unencumbered liquid balance as on June 30, 2020) consistently and has been able to garner funding support from lenders in the form of a moratorium or fresh funding. ICRA expects the company to maintain strong on-balance sheet liquidity going forward as well, at least until the collection efficiency stabilises to the pre-Covid-19 levels. Supported by a good information system, monitoring process and information technology (IT) capabilities, SCNL is able to instantly provide its customers with a wide range of online repayment options. This supported its collection and recovery efforts during the Covid-19 pandemic. However, SCNL's asset quality will remain a key credit monitorable as ICRA notes that the microfinance industry is facing many challenges following the spread of Covid-19 throughout the country including the continuity of business operations on the field and the possible adverse impact on the asset quality. Notwithstanding the impact of the lower-than-planned disbursements in Q4 FY2020, the additional provisioning made for Covid-19 and the excess carry, the company delivered fairly on the profitability indicators for FY2020 with a return on average managed assets (RoMA) of 1.71%.

Though SCNL has improved its geographical presence with the share of the top 3 states declining to 51% of the assets under management (AUM) as on March 31, 2020 from 60% as of March 2018, the portfolio concentration remains high with the top 2 states, Uttar Pradesh and Bihar, still accounting for 42% of AUM as on March 31, 2020. ICRA expects that the company would maintain prudent capitalisation at the consolidated level as this will remain critical from credit perspective. The ability to match the capital requirements of its subsidiaries by raising fresh capital and maintaining adequate capital levels for its standalone as well as consolidated operations will remain a key monitorable as the subsidiaries scale up. The ratings remain constrained by the marginal borrower profile and the unsecured nature of microfinance loans, which continued to account for 94% of SCNL's consolidated AUM (including subsidiaries). Moreover, SCNL's ability to navigate through the adversity and manage the impact of the pandemic on business growth, client retention and asset quality would remain critical from a rating perspective, going forward.

The Stable outlook on the long-term rating reflects ICRA's opinion that SCNL will continue to benefit from the extensive experience of its promoters and management and will remain adequately capitalised.

## Key rating drivers and their description

### Credit strengths

**One of the largest players in MFI industry** – SCNL is one of the largest players in the MFI industry with AUM of Rs. 7,220 crore as on March 31, 2020 compared to Rs. 6,374 crore as on March 31, 2019. The company has a wide geographical reach and was operating in 23 states and Union Territories (UTs) across 383 districts through 1,140 branches as on March 31, 2020 (18 states and UTs across 307 districts and 838 branches as on June 30, 2018). SCNL is actively using direct assignment (DA) and securitisation as a source of funding with the share of the off-book portfolio at 36% as on March 31, 2020 (31% as on March 31, 2019). Through its subsidiaries, the company has also diversified its product base into other asset classes like affordable housing (ticket size of up to Rs. 40 lakh), MSME finance (ticket size of Rs. 15 lakh) and wholesale lending (ticket size up to Rs. 10 crore). However, these subsidiaries are in early stages of operations.

**Diversified funding profile and strong liquidity** – SCNL has a well-diversified funding profile comprising 64 active lenders. It continued to receive funding support in FY2020, even after the Covid-19 pandemic started. The company has raised Rs. 986 crore since the nationwide lockdown on March 23, 2020. SCNL's funding profile has steadily improved with banks, non-banking finance companies (NBFCs)/financial institutions (FIs) and non-convertible debentures (NCDs) accounting for 31%, 30% and 12%, respectively, of its total borrowings as on June 30, 2020 (26%, 25% and 14%, respectively, as on June 30, 2019 and 36%, 23% and 18%, respectively, as on March 31, 2018). SCNL managed to raise Rs. 6427 crore during FY2020, of which it had drawn down Rs. 5,248 crore during the year. SCNL's liquidity profile is supported by the relatively shorter tenure of its assets vis-à-vis its liabilities, healthy cash balances and sanctioned but unutilised funding lines. The company had a healthy cash and liquid balance of Rs. 1,642 crore and unutilised sanctions of Rs. 1,031 crore as on June 30, 2020 against principal liability repayments of Rs. 1,562 crore till December 31, 2020.

**Improved collections from recently originated portfolio; however, impact of Covid-19 on asset quality yet to be seen** – With the company being heavily impacted in the aftermath of demonetisation, the collections improved over time owing to various steps taken by the management including top-ups to borrowers, deployment of focused collection teams in problem districts and strengthening of the internal IT systems and processes. SCNL reported a cumulative collection efficiency of 97.6% as on March 31, 2020 (for FY2020). ICRA notes that the collection efficiency for FY2020 was lower on account of the nationwide lockdown in the last week of March 2020. Supported by the good collection efficiency, higher provisioning and write-offs, the gross NPA improved to 2.08% as on March 31, 2020 (as a percentage of AUM) from 2.80% as on March 31, 2019. While ICRA notes SCNL's consistent efforts to improve the collection efficiency and mitigate the adverse impact of the pandemic on collections, the company's ability to recover and stabilise to the pre-Covid level of collections and keep its asset quality under control would be critical from a credit perspective.

**Improved profitability indicators although partially supported by DA income** – SCNL's net interest margin (NIM), as a percentage of average managed assets (AMA), compressed to 5.52% in FY2020 from 7.15% in FY2019. However, the overall income was supported by non-interest income (including DA income) of 3.53% of AMA (vs 2.51% in FY2019). The operating expenses declined to 4.56% of AMA in FY2020 from 4.93% in FY2019 with an improvement in the scale and cost rationalisation by the management (as a percentage of average managed advances as well, the operating expenses reduced by 37 bps to 6.13% in FY2020). SCNL's credit and provision costs, as a percentage of AMA, however, increased to 2.16% in FY2020 from 0.69% in FY2019 on account of write-offs and additional provisioning related to Covid-19. This resulted in SCNL reporting RoMA and return on equity (RoE) of 1.71% and 12.00%, respectively, in FY2020 vis-à-vis 2.58% and 19.08%, respectively, in FY2019.

**Good information systems** – SCNL has an in-house software system, which enables it to track every client, group, centre, branch, territory, region, and zone, apart from the company in its entirety. The system brings with it significant productivity improvements through automation and will help realise operational efficiencies. The company is now disbursing ~99% loans through the cashless mode while 12% of the incremental collections are cashless. SCNL tracks data on state-wise, district-wise and branch-wise disbursements and collections on a real-time basis, which aids better

decision-making and faster corrective action. SCNL conducts quarterly branch audits and a separate risk team conducts branch visits based on risk triggers. The field auditors are responsible for monitoring six-eight branches within a region. They go through the company's processes and policies in detail and highlight process deviations in the presence of the operations staff. Three types of audit are conducted: full branch audit (12 days), short branch audit (10 days) and region audit (three days). Each audit is conducted by surprise and covers a range of processes in loan generation including documentation, file management, cash management, loan utilisation checks, centre meetings, and collections.

## Credit challenges

**Ability to manage adverse impact of Covid-19 pandemic on asset quality and profitability** – The microfinance industry is facing many challenges following the spread of the Covid-19 pandemic throughout the country. These include the continuity of business operations on the field and the possible adverse impact on the asset quality as the borrowers' cash flows and economic activity have slowed down. Moreover, incremental business growth has been hindered with disbursements being muted in Q1 FY2021. SCNL's ability to navigate through the adversity and manage the impact on business growth, client retention and asset quality would remain critical from a rating perspective, going forward.

**Significant regional concentration despite improved geographical presence** – SCNL has expanded its geographical presence to 23 states/UTs and 383 districts as on March 31, 2020. Although its geographical diversification has improved with the share of Uttar Pradesh and Bihar declining to 25% and 16%, respectively, as on March 31, 2020 from 30% and 19%, respectively, as on March 31, 2018, the share of the top states remains high with the top 3 states comprising 51% of the AUM as on March 31, 2020. Even at the district level, the top 10 districts accounted for 16% of the microfinance portfolio and 71% of the net worth as on March 31, 2020 (14% of the overall AUM and 74% of the net worth as on June 30, 2019). However, the geographical concentration is expected to improve as the company continues to expand in under-penetrated geographies.

**Increasing capital investment in subsidiaries** – To diversify its product base, the company has ventured into other asset classes like affordable housing, MSME financing and wholesale lending. It has three wholly-owned subsidiaries – Taraashna Services Limited (business correspondent (BC) arm of SCNL), Satin Housing Finance Limited (SHFL; affordable housing) and Satin Finserv Limited (SFL; MSME financing and wholesale lending). Due to the nascent stage of operations of SHFL and SFL, the capital requirement of these businesses is expected to be high in the near term. SCNL's ability to match the capital raised with the capital requirements of its subsidiaries will be a determinant of its standalone capital position. Further, although the asset quality of the subsidiaries remains good as of now, the ability to maintain the same as the portfolio seasons will remain a rating driver, given the long tenure of these products. Additionally, as the subsidiaries will need to tie up long-term funding, given their asset profiles, their ALM mismatches will remain a monitorable as their businesses scale up.

**Marginal profile of borrowers and limited product and revenue diversification** – Although SCNL has been venturing into housing and MSME lending through its subsidiaries, its product diversification remains low with the concentration primarily being in the microfinance segment. Also, the company's portfolio remains relatively risky as it is purely unsecured in nature. SCNL's ability to maintain the asset quality indicators through economic cycles remains a key rating sensitivity. Unsecured lending to the marginal borrower profile and the political and operational risks associated with microlending may result in high volatility in the asset quality indicators. The microfinance industry is prone to socio-political and operational risks, which could negatively impact the company's operations and thus its financial position. However, a geographically-diversified portfolio mitigates these risks to some extent as these issues are largely region specific so far. SCNL's ability to on-board borrowers with a good credit history, recruit and retain employees and maintain geographical diversity would be a key rating sensitivity.

## Liquidity position: Strong

SCNL had strong liquidity in the form of an unencumbered cash and liquid balance of Rs. 1,642 crore as on June 30, 2020, which is sufficient to cover its principal repayments over the next 6 months without assuming collections from maturing

advances. The liquidity profile is further supported by the collections from advances and unutilised lines. The company had unutilised lines (including DA sanctions) of Rs. 1,031 crore on July 24, 2020 and it collected ~Rs. 770 crore from borrowers between April 01, 2020 and July 21, 2020. The liquidity remains supported by the moratorium or fresh funding from the lenders. Nonetheless, the recovery of the collection efficiency levels, driven by the company's ability to collect multiple EMIs from its borrowers, will remain critical for its liquidity profile.

## Rating sensitivities

**Positive triggers** – ICRA could upgrade the ratings if the company demonstrates an improvement in its profitability indicators with RoMA of more than 2.5% on a sustainable basis. This, along with an improvement in the geographical diversification, good asset quality and prudent capitalisation with a managed gearing<sup>1</sup> below 5 times on a sustained basis, could result in a rating upgrade.

**Negative triggers** – Pressure on the ratings could arise if there is a deterioration in the asset quality, which could affect the profitability. A weakening in the earnings profile with RoMA falling below 1.5% could also exert pressure on the company's ratings. The weakening of the capitalisation profile with a managed gearing of more than 6 times or a stretch in the liquidity could also exert pressure on the ratings.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Rating Methodology for Non-Banking Finance Companies</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of SCNL. However, in line with its limited consolidation approach, ICRA has factored in the capital requirement of the company's subsidiaries – Taraashna Services Limited, Satin Housing Finance Limited and Satin Finserv Limited.

## About the company

SCNL, which was set up in 1990 to provide individual business loans to urban shopkeepers, started providing group lending services to the rural poor in 2008. It was registered with the Reserve Bank of India (RBI) as a deposit taking NBFC under the name, Satin Leasing and Finance Company Limited. Following its conversion into a public limited company in 1994, the company was renamed Satin Creditcare Network Limited in 2000. The company stopped accepting public deposits from November 2004 and the RBI changed its classification to Category B (non-deposit taking) from Category A (deposit taking) in February 2009 and converted it into an NBFC-MFI in November 2013. The company's microfinance operations are based on the Grameen Bank JLG model and were spread across 1,140 branches in the country as on March 31, 2020.

SCNL is listed on the National Stock Exchange of India Limited, Bombay Stock Exchange and Calcutta Stock Exchange. As on March 31, 2020, the company's standalone managed portfolio stood at Rs. 7,220 crore. It reported a profit after tax (PAT) of Rs. 156.26 crore on a managed asset base of Rs. 9,664.84 crore in FY2020 against PAT of Rs. 194.94 crore on a managed asset base of Rs. 8,621.29 crore in FY2019. SCNL's regulatory capital adequacy as on March 31, 2020 stood at 30.45% and its gross and net NPAs stood at 2.08% and 1.18%, respectively.

<sup>1</sup> Managed gearing = On-balance sheet debt (including securitisation)/(net worth – FLDG on BC portfolio – investment in subsidiaries)

### Key financial indicators (audited; as per Ind-AS)

	<b>FY2018</b>	<b>FY2019</b>	<b>FY2020</b>
Total Income (Rs. crore)	976.75	1,369.26	1,400.90
PAT (Rs. crore)	82.15	194.94	156.26
Net Worth (Rs. crore)	891.90	1,151.42	1,452.77
Total Managed Portfolio (Rs. crore)	5,085.00	6,374.00	7,220.00
Total Managed Assets (Rs. crore)	6,502.34	8,621.29	9,664.84
RoMA (%)	1.41%	2.58%	1.71%
RoE (%)	10.74%	19.08%	12.00%
Gearing (times)	5.82	4.60	3.76
Managed Gearing (times)	6.37	5.59	4.78
Gross NPA (% of AUM)	4.23%	2.80%	2.08%
Net NPA (% of AUM)	1.46%	1.66%	1.18%
Net NPA / Net Worth (%)	8.33%	9.21%	5.85%
CAR (%)	23.65%	28.49%	30.45%

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018		
					4-Aug-2020	27-Sep-2019	24-Aug-2018	13-Mar-2018	12-Dec-2017	
1	Commercial Paper	Short Term	200.00	0.00	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2	[ICRA]A2	
2	NCD	Long Term	155.00	155.00	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	
3	Subordinated Debt	Long Term	128.00	128.00	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	
4	Preference Share	Long term	45.00	-	-	-	[ICRA]BBB+(hyb) (Stable)	[ICRA]BBB (hyb) (Stable)	-	

Amount in Rs. crore

### Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper	NA	NA	7-365 days	200	[ICRA]A1
INE836B07162	NCD – 1	8-May-15	14.50%	18-Dec-20	2	[ICRA]A- (Stable)
INE836B07279	NCD – 3	3-Nov-16	13.35%	30-Nov-20	50	[ICRA]A- (Stable)
INE836B08145						
INE836B07329	NCD – 4	7-Dec-2017	11.34%	7-Dec-2020	45	[ICRA]A- (Stable)
INE836B07337	NCD – 5	8-Dec-2017	11.99%	8-Dec-2020	33	[ICRA]A- (Stable)
INE836B08020	Sub-debt – 1	20-Mar-15	16.90%	20-Sep-20	15	[ICRA]A- (Stable)
INE836B08038	Sub-debt – 2	31-Mar-15	17.75%	18-Dec-20	13	[ICRA]A- (Stable)
INE836B08046	Sub-debt – 3	29-Jul-16	15.00%	29-Jul-23	25	[ICRA]A- (Stable)
INE836B08061	Sub-debt – 4	30-Dec-15	15.50%	15-Apr-22	25	[ICRA]A- (Stable)
INE836B08103						
INE836B08111	Sub-debt – 5	29-Jun-16	15.00%	30-Sep-22	40	[ICRA]A- (Stable)
INE836B08129						
INE836B08137						
INE836B08095	Sub-debt - 6	28-Jun-16	15.50%	28-Sep-22	10	[ICRA]A- (Stable)
NA	NCD – 6*	NA	NA	NA	25	[ICRA]A- (Stable)

Source: SCNL; \* Yet to be issued

### Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Taraashna Services Limited	100%	Limited Consolidation
Satin Housing Finance Limited	100%	Limited Consolidation
Satin Finserv Limited	100%	Limited Consolidation

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