

December 12, 2017

Satin Creditcare Network Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
NCD Programme	78.00	[ICRA]BBB+ (negative); Assigned
Preference Share Programme	45.00	[ICRA]BBB (hyb) (negative); Assigned
Total	123.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a rating of [ICRA]BBB+ (pronounced ICRA triple B Plus) to the Rs. 78.00 crore NCD programme and a rating of [ICRA]BBB (hyb)¹ (pronounced ICRA triple B) to the Rs. 45.00 crore preference share Programme of Satin Creditcare Network Limited (SCNL)². The outlook on the long-term rating is Negative.

Rationale

The ratings factor in SCNL's experienced management team, strong investor profile, good management information systems (MIS) and risk management systems, and its improved capitalisation profile. However, the ratings are constrained by the company's relatively high delinquencies especially in the harder buckets (90+ and 180+ dpd of 11% and 9% as on September 30, 2017), which is expected to result in increased credit costs going forward. ICRA will continue to monitor the trends in the company's collection efficiency, incremental provisioning requirements and capital position. While the collection efficiency has been improving month-on-month, ICRA notes that given the marginal borrower profile and the unsecured nature of microfinance loans, a significant recovery from harder buckets could be protracted.

Key rating drivers

Credit strengths

- **Experienced and professional management team** - SCNL has a strong and experienced senior management team that is actively engaged in day-to-day operations and decision-making. The senior management team is composed of professionals recruited from banks, retail finance companies, and microfinance institutions. The company has a well-defined organisation structure with three-tier reporting hierarchy including the branch manager, territory manager (supervising 3-4 branches), and regional manager (supervising 5-8 territories). As on September 30, 2017, the company operated through over 680 branches with nearly 6,000 staff members, of whom a majority were field officers.
- **Strong investor profile, including SBI FMO, Norwegian Microfinance Initiative, Asian Development Bank and MV Mauritius** - SCNL has good quality investors, who have infused multiple rounds of equity into the company. More recently, SCNL raised Rs. 94.30 crore equity through Asian Development Bank (ADB) and promoters in Q1FY2018, Rs. 35 crore in the form of Optionally Convertible Redeemable Preference Shares (OCRPS) from a large NBFC in July 2017 and Rs. 150 crore equity through a qualified institutional placement (QIP) in October 2017 and aims to

¹ The letters 'hyb' in parenthesis suffixed to a rating symbol stand for "hybrid", indicating that the rated instrument is a hybrid subordinated instrument with equity-like loss-absorption features; such features may translate into higher levels of rating transition and loss severity vis-a-vis conventional debt instruments

² For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications

raise another round of Rs, 160 crore in the coming months. Maintaining an adequate capitalisation position post providing for the demonetisation losses will be important from a credit perspective.

- **Good MIS, risk management and internal audit systems** – SCNL recently migrated to 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 will bring with it significant productivity improvements through automation and help realise operational efficiencies. The new software will enable cashless disbursements and collections. The company will also be able to track data on a real time basis that will aid decision making.

SCNL conducts quarterly branch audits and has an independent internal audit team of 17-20 auditors. Field auditors are responsible for monitoring about 6-8 branches within a region. Auditors go through the company processes and policies in detail and highlight process deviations in the presence of operations staff. Three types of audits are conducted: full branch audits (12 days), short branch audits (10 days) and region audits (3 days). Each audit is surprise of nature and covers a range of processes in loan generation including documentation, file management, cash management process, loan utilisation checks, centre meetings, and collection process.

- **Improved capitalisation profile following the equity infusions in FY2018** – SCNL has raised Rs. 94.30 crore of equity through ADB and promoters in Q1FY2018 and Rs. 150 crore through a QIP in October 2017, Rs. 35 crore in the form of Optionally Convertible Redeemable Preference Shares (OCRPS) from a large NBFC in July 2017 and Rs. 150 crore equity through a qualified institutional placement (QIP) in October 2017 taking its net worth to Rs. 846 crore as on October 31, 2017. Post the infusion, SCNL had a capital adequacy of 25.3% with Tier 1 of 19.8%. Overall, the company's ability to maintain good capitalisation levels will be important from a credit perspective.

Credit weaknesses

- **High exposure to Uttar Pradesh, Madhya Pradesh, Punjab and Maharashtra where collections were affected more, post demonetisation** – SCNL was present in 18 states across 267 districts through 680 branches as on September 30, 2017. However, the share of Uttar Pradesh remained high at 37% and the top 5 states accounted for 82% of the portfolio and top 3 states accounted for 62% of the portfolio as on September 30, 2017. The MFI was impacted severely due to high concentration of portfolio in affected regions of Uttar Pradesh, Madhya Pradesh, Punjab and Maharashtra due to political interference, cash crunch and impact on livelihood.
- **Weak asset quality indicators; however, some improvement in the past few months** – The company's overall asset quality indicators have improved gradually from 0+ of 47% as on December 31, 2016 to 19% as on September 30, 2017. However, its 180+ delinquency remained high at Rs. 357 crore (8.95%) as on September 30, 2017. The company's on balance sheet provision for NPAs stood at Rs. 233 crore as on September 30, 2017, while its net NPAs/net worth improved significantly from 72% as on March 31, 2017 to 32% as of September 30, 2017. SCNL's ability to recover from delinquent borrowers would be critical going forward.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Rating Methodology for Microfinance Institutions](#)

About the company

Satin Creditcare Network Limited (SCNL) was set up in 1990 to provide individual business loans to urban shopkeepers and entered group lending to the rural poor in 2008. It was registered with the Reserve Bank of India (RBI) as deposit taking non-banking finance company (NBFC) under the name Satin Leasing and Finance Company Limited. It was converted into a public limited company in 1994 and was renamed as Satin Creditcare Network Limited in 2000. The company stopped accepting public deposits from November 2004 and its classification was changed from Category A (deposit taking) to Category B (non-deposit taking) by the RBI in February 2009.

The company is engaged in microfinance operations across many states in India. The company's urban microfinance operations are primarily based on the individual loan model, serving clients in 18 states and union territories. The rural microfinance operations are based on the Grameen Bank joint liability group (JLG) model and were spread across 267 districts of the country as on September 30, 2017.

SCNL is listed on the National, Bombay and Kolkata stock exchanges. As on September 30, 2017, the company's portfolio stood at Rs. 3,988 crore. SCNL reported a PAT of Rs. 24.5 crore on managed assets of Rs 3,556 crores in FY2017 as against a PAT of Rs. 57.9 crore on managed assets of Rs 3,271 crore in FY2016. SCNL's regulatory capital adequacy as on September 30, 2017 stood at 20.9% and its 0+ dpd and 30+ dpd stood at 19.26% and 15.50% respectively.

Key Financial Indicators (Audited)

	FY2016	FY2017
Net interest income	177.4	215.7
Profit before tax	87.5	37.2
Profit after tax	57.9	24.5
Net advances	3,248	3,516
Total assets	3,303	4,748
% Tier 1	11.30%	16.58%
% CRAR	16.82%	24.14%
Gearing	8.53	6.14
% Net profit/Average managed assets	1.6%	0.5%
% Return on net worth	22.39%	5.10%
% Gross NPAs	0.17%	0.63%*
% Net NPAs	0.09%	0.32%*
Net NPA/Net worth	0.85%	59.55%

Amounts in Rs. crore

Source: ICRA Research and company

*with RBI dispensation

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015	
					December 2017	March 2017	February 2016	-	
1	NCD Programme	Long term	78.00	78.00	[ICRA]BBB+ (negative)	-	-	-	
2	Preference Share Programme	Long term	45.00	45.00	[ICRA]BBB (hyb) (negative)	-	-	-	
3	NCD Programme	Long term	180.00	180.00	[ICRA]BBB+ (negative)	[ICRA]BBB+ (negative)	[ICRA]BBB+ (stable)	-	
4	Subordinated Debt Programme	Long term	128.00	128.00	[ICRA]BBB+ (negative)	[ICRA]BBB+ (negative)	[ICRA]BBB+ (stable)	-	
6	Commercial Paper Programme	Short term	50.00	50.00	[ICRA]A2	[ICRA]A2	-	-	

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

**Annexure-1
Instrument Details**

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE836B07329	NCD – 5	7-Dec-2017	11.34%	7-Dec-2020	45	[ICRA]BBB+ (Negative)
INE836B07337	NCD – 6	8-Dec-2017	11.99%	8-Dec-2020	33	[ICRA]BBB+ (Negative)
Yet to be issued	Preference Share – 1		0.01%		45	[ICRA]BBB (hyb) (Negative)
INE836B07162	NCD – 1	8-May-15	14.50%	18-Dec-20	2	[ICRA]BBB+ (Negative)
INE836B07238 INE836B07246 INE836B07253	NCD - 2	30-Jun-16	12.50%	30-Jun-19	60	[ICRA]BBB+ (Negative)
INE836B07220	NCD – 3	15-Jun-16	13.25%	15-Jun-19	68	[ICRA]BBB+ (Negative)
INE836B07279 INE836B08145	NCD - 4	3-Nov-16	13.35%	30-Nov-20	50	[ICRA]BBB+ (Negative)
INE836B08020	Sub-debt – 1	20-Mar-15	16.90%	20-Sep-20	15	[ICRA] BBB+ (Negative)
INE836B08038	Sub-debt – 2	31-Mar-15	17.75%	18-Dec-20	13	[ICRA] BBB+ (Negative)
INE836B08046	Sub-debt – 3	29-Jul-16	15.00%	29-Jul-23	25	[ICRA] BBB+ (Negative)
INE836B08061	Sub-debt – 4	30-Dec-15	15.50%	15-Apr-22	25	[ICRA] BBB+ (Negative)
INE836B08103 INE836B08111 INE836B08129 INE836B08137	Sub-debt – 5	29-Jun-16	15.00%	30-Sep-22	40	[ICRA] BBB+ (Negative)
INE836B08095	Sub-debt - 6	28-Jun-16	15.50%	28-Sep-22	10	[ICRA] BBB+ (Negative)
	Commercial Paper	24-Mar-17	10.25%	22-Sep-17	50	[ICRA] A2

Source: the company

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About ICRA Limited:

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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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