

April 18, 2022

Satin Creditcare Network Ltd.: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)^	Rating Action
Term Loan	40.00	23.92	[ICRA]A(CE) (Stable); reaffirmed
Commercial Paper	200.00	200.00	[ICRA]A1; outstanding
Non-convertible Debentures	25.00	25.00	[ICRA]A- (Negative); outstanding
Subordinated Debt	100.00	100.00	[ICRA]A- (Negative); outstanding
Total	365.00	348.92	

Rating Without Explicit Credit Enhancement	[ICRA]A-
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*Instrument details are provided in Annexure-1; ^Term loan outstanding after Jan-22 payout month;

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The rating action takes into account the structural features available in the transaction such that in the event of non-payment by Satin Creditcare Networks Limited (SCNL) of its expected repayments, the respective cover pools along with the cash collateral (if any) would be utilised to support the servicing of the rated instruments. The key structural features of the rated instrument are summarised below.

Instrument	Trust Name	Security Cover	Structural Feature
Rs. 23.92 crore Term Loan	Vivriti Venus Trust 2020	1.22x cover pool ^	Pool to be assigned to the trust on the occurrence of predefined trigger events; post trigger events, all collections from the cover pool will be transferred to the Debenture Trustee of the rated Term Loan

^The cover pool requirement is calculated on the outstanding principal of Term Loan

The rating draws comfort from SCNL's established presence and track record in the microfinance industry. SCNL witnessed steady growth in its assets under management till March 2021. However, its disbursements were impacted by the Covid-19 pandemic-led disruptions and it reported an annualised decline of ~21% in its assets under management (AUM) to Rs. 6,123 crore as on December 31, 2021 from Rs. 7,275 crore as on March 31, 2021. The company witnessed deterioration in asset quality because of the pandemic-related disruptions with SCNL reporting gross non-performing assets (GNPA) of 8.6% as on December 31, 2021 (8.40% as on March 31, 2021). However, SCNL reported an improvement in collection efficiency in recent months (100% in January 2022 from ~73% in May 2021), which provides some comfort. Going forward, a sustained uptrend in the same would be a key from the rating perspective. Furthermore, post any trigger event, the performance of the cover pool would remain exposed to any additional disruptions that may arise due to the pandemic.

Structure details, adequacy of credit enhancement and salient features of rated instruments

Details on the structure, adequacy of the credit enhancement and salient features of a rated instrument are available in ICRA's previous rationales.

Rs. 40.00 crore Term Loan (Vivriti Venus Trust 2020): [Click here](#)

Key rating drivers and their description

Credit strengths

For the [ICRA]A(CE) (Stable) Rating

Presence of cover pool and cash collateral to support servicing of the rated facility in the event of non-payment by entity – The primary obligation of meeting the covered term loan payments is on SCNL. However, if SCNL does not meet the expected payment on the term loan, the collections from the cover pool along with the cash collateral will be available to the lender. The principal as well as the interest amount on the term loan are promised to the investor on the legal maturity date.

Stringent eligibility criteria for cover pool – Contracts at the time of assignment should be current and contracts that are delinquent by more than 30 days would be excluded from the cover computation. Even the proportion of contracts which are delinquent, but for less than 30 days, should be less than 5% of the pool at any point of time.

Credit challenges

For the [ICRA]A(CE) (Stable) Rating

Interest rate risk as pool yield could be lower in subsequent cover pool at the time of trigger event – The benefit available on account of the difference between the pool yield and the term loan yield may shrink in case the pool, at the time of the occurrence of the trigger event, consists of contracts which have a lower internal rate of return (IRR; minimum 18% IRR permissible for subsequent pools). However, this is mitigated as most of SCNL's portfolio comprises loans with an IRR of more than 18%.

In case of occurrence of trigger event in the near term, pool's performance will remain exposed to fresh disruptions that may arise due to the pandemic – Some borrowers are facing several challenges due to the impact of the Covid-19 pandemic. SCNL's ability to manage any fresh disruptions that may arise due to the pandemic would remain critical from a rating perspective, going forward.

Liquidity position

For the [ICRA]A(CE) (Stable) rating with explicit credit enhancement: Strong

Both the principal and the interest amount on the covered term loan are promised to the lender on the legal final maturity date subject to the non-occurrence of a trigger event. This imparts significant liquidity support to the instrument. The cash flows from the cover pool, along with the cash collateral, are expected to be comfortable to meet the debt servicing in the event that the entity is unable to meet the scheduled payments on the term loan.

For the [ICRA]A- (Negative)/[ICRA]A1 rating without explicit credit enhancement: Strong

SCNL had free cash and liquid balance of Rs. 1,069 crore as on December 31, 2021 with debt obligations (including interest) of Rs. 2,051 crore due during the next six months and Rs. 1,147 crore over the next three months. Factoring in collections of Rs. 2,243 crore due over the next six months and Rs. 1,085 crore over the next three months, the liquidity is strong. Even with nil collections, SCNL's liquidity along with unavailed sanctions (Rs. 320 crore as on December 31, 2021) are sufficient to cater for three months of debt obligations and operational expense requirements. ICRA expects the management to rationalise the on-book liquidity going forward to reduce the negative carry.

Rating sensitivities

For the [ICRA]A (CE) (Stable)

Positive factors – The rating is unlikely to be upgraded.

Negative factors – The rating could be downgraded on the non-adherence to the key transaction terms envisaged at the time of the rating and material deterioration in SCNL's credit profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Non-Banking Finance Companies Covered Bond Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

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. It 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 joint liability group (JLG) model and were spread across 1,028 branches in the country as on December 31, 2021.

SCNL is listed on the National Stock Exchange of India Limited (NSE), Bombay Stock Exchange (BSE) and Calcutta Stock Exchange. As on December 31, 2021, the company's standalone AUM stood at Rs. 6,123 crore and consolidated AUM at Rs. 7,218 crore. On standalone basis, it reported a net loss of Rs. 19 crore in 9M FY2022 against a net loss of Rs. 14 crore in FY2021. On consolidated basis, the reported net loss for 9M FY2022 was Rs. 36 crore against Rs. 14 crore in FY2021.

Key financial indicators (consolidated; audited)

Satin Creditcare Network Limited	FY2019	FY2020	FY2021	9M FY2022*
Total income (Rs. crore)	1,445	1,503	1,374	1,017
Profit after tax (Rs. crore)	202	155	(14)	(36)
Net worth (Rs. crore)	1,116	1,415	1,452	1,384
Gross AUM (Rs. crore)	7,068	8,174	8,380	7,218
Total assets (Rs. crore)	6,748	7,425	8,304	NA
Return on average managed assets (%)	2.49%	1.61%	-0.1%	NA
Return on average net worth (%)	20.5%	12.2%	-1.0%	NA
Reported gearing (times)	4.8	4.0	4.3	NA
Adjusted gearing (times)	6.2	5.7	5.5	NA
Gross stage 3 (%)^	3.9%	3.2%	8.2%	8.6%
Net stage 3 (%)^	2.3%	1.9%	4.7%	2.7%
Solvency (Net stage 3/Net worth)^	9.2%	6.4%	17.8%	9.6%
CRAR (%)^	28.5%	30.5%	25.3%	24.0%

Source: Company, ICRA Research; * Limited review numbers and ratios might change subject to notes to accounts; E – Estimated value

All ratios and values are as per ICRA calculations; Net stage 3 (%) = Net stage 3 / Gross loan book,

^ Gross stage-3, Net stage-3, Solvency and CRAR ratios are on standalone basis

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
	Type	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
				April 18, 2022	-	March 18, 2021	October 5, 2020	-
1 Term Loan	Long Term	40.0	23.92	[ICRA]A(CE) (Stable)	-	[ICRA]A(CE) (Stable)	Provisional [ICRA]A (CE) (Stable)	-

For details on other ICRA-rated instruments of the company, refer to the rationales [here](#)

Complexity level of the rated instrument

Transaction Name	Instrument	Complexity Indicator
Vivriti Venus Trust 2020	Term Loan	Highly Complex

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: 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	Term Loan	Sep 2020	11.6%	Sep 2023^	23.92	[ICRA]A(CE) (Stable)

[^]Expected maturity date; Legal maturity date is Sep 2024

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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