September 27, 2019

Satin Creditcare Network Ltd.: Long-term rating reaffirmed; short-term rating upgraded to [ICRA]A1

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture programme	130.00	130.00	[ICRA]A-(Stable); Reaffirmed
Non-convertible debenture programme	60.00	0.00	[ICRA]A-(Stable); Withdrawn
Commercial paper programme	200.00	200.00	[ICRA]A1; Upgraded from [ICRA]A2+
Subordinated debt programme	128.00	128.00	[ICRA]A-(Stable); Reaffirmed
Preference share programme	45.00	0.00	[ICRA]BBB+ (hyb)(Stable): Withdrawn
Total	**563.00**	**458.00**	

**Instrument details are provided in Annexure-1*

Rationale

The short-term rating upgrade considers Satin Creditcare Network Ltd.'s (SCNL) improved liquidity position on a sustained basis, characterised by higher on-balance sheet liquidity and sanctioned bank lines. The upgrade is also based on the expectation that the liquidity position will remain comfortable going forward, given the company's changed strategy of increasing the share of its off-balance sheet portfolio (includes direct assignment (DA) and IndusInd Bank's business correspondent (BC) portfolio) to 35%-40% of assets under management (AUM) over the next 1-2 years from ~33% as of June 2019 (~0% as of March 2018). This will enable SCNL to grow its AUM without a corresponding increase in its on-balance sheet funding requirements. SCNL continues to benefit from the shorter tenure of its assets primarily because most of the loans are microfinance loans for ~24 months, which are shorter than the tenure of its liabilities. This has resulted in cumulative surpluses across various maturity buckets. The 3-month and 1-year surpluses, as per the asset-liability mismatch (ALM) statement as on June 30, 2019, stood at 25% and 50%, respectively, of the total outflows. ICRA expects the company to maintain strong on-balance sheet liquidity going forward as well, though the same may decline from current levels.

The reaffirmation of the long-term rating factors in SCNL's leading position in the MFI segment, its high collection rate and improved profitability. Though the overall AUM grew by 20% on a YoY basis to Rs. 6,467 crore as on June 30, 2019, the increase in the off-book portfolio led to a decline in the on-book portfolio by 19% to Rs. 4,344 crore. Supported by a good information system and monitoring process, SCNL continues to maintain a high collection rate with collections of 99.4% for its portfolio disbursed after January 2018, which accounts for 95% of its current AUM. This also resulted in an improvement in the reported asset quality with 0+ day past due (dpd) of 6.19% (including write-offs during the last 12 months) as of June 2019 compared to 10.25% as on March 31, 2018.

SCNL continues to diversify its geographical presence with the share of the top 3 states declining to 52% of AUM as on June 2019 from 60% as of March 2018 and the share of the top 10 districts declining to 14% of AUM and 94% of net worth as on June 30, 2019 from 20% and 92%, respectively, as of March 2018. Notwithstanding the improvement, the portfolio concentration remains high with the top two states, Uttar Pradesh and Bihar, still accounting for 42% of AUM and 15% of the net worth as of June 2019.

The rating also notes SCNL's increasing investments in its subsidiaries, whereby its equity investments increased to Rs. 187.60 crore as of June 2019 (14% of its net worth) from Rs. 76.75 crore as of March 2018 (9% of its net worth). ICRA notes that the company has planned further equity investments of Rs. 350-450 crore in its subsidiaries over the next 2-3 years to scale up their operations. SCNL will continue to require fresh capital raising to support its subsidiaries as well as for its own capital requirements. As a step towards this, the company raised Rs. 90-crore equity capital in Q1 FY2020 and plans to raise further capital during the next few years. The ability to match the capital requirements of its subsidiaries with fresh capital raising and maintain 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 98% of the consolidated AUM of SCNL (including subsidiaries).

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. The outlook may be revised to Positive if a further improvement in the asset quality leads to improved profitability while strengthening the capitalisation profile. It may be revised to Negative if there is a deterioration in profitability because of asset quality issues, which would lead to higher credit costs and lower profitability and would weaken the capitalisation levels or if the company faces difficulty in raising funds, thereby weakening its liquidity profile.

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. 6,467 crore as on June 30, 2019 compared to Rs. 5,400 crore as on June 30, 2018. The company has a wide geographical reach and was operating in 22 states and Union Territories (UTs) across 350 districts through 1,024 branches as on June 30, 2019 (18 states and UTs across 307 districts and 838 branches as on June 30, 2018). SCNL has tied up with IndusInd Bank as its BC partner. This, coupled with other assignment transactions, is expected to increase the share of the off-book portfolio to 35%-40% of the overall AUM in the medium term from 33% as on March 31, 2019 and ~0% as on March 31, 2018. 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 with 71 active lenders in its borrowing profile. It continued to receive funding support in FY2019, especially during the liquidity crisis post September 2018, though the cost of funding has gone up by ~100-150 bps. The company's funding profile has steadily improved with banks, non-banking finance companies (NBFCs)/financial institutions (FIs) and non-convertible debentures (NCDs) accounting for 26%, 25% and 14%, respectively, of its total borrowings as on June 30, 2019 (36%, 23% and 18%, respectively, as on March 31, 2018). SCNL managed to raise Rs. 6,163 crore (sanctions) in FY2019, of which it had drawn down Rs. 5,248 crore during the year. Of the total amount raised during the fiscal, Rs. 3,369 crore was raised in H2 FY2019. The company also had off-balance sheet borrowings through BC and DA transactions. SCNL has done securitisation and DA transactions worth ~Rs. 1,900 crore since September 2018.

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. 1,786 crore and unutilised sanctions of Rs. 1,412 crore as on June 30, 2019 against principal liability repayments of Rs. 1,350 crore till December 31, 2019. It also had principal inflows from maturing advances to the tune of Rs. 1,762 crore during this period.

Improved collections from recently originated portfolio – SCNL was heavily impacted in the aftermath of demonetisation as its collections declined during that period. However, the collections improved over time owing to various steps taken by the management including top-ups given to borrowers, focused collection teams deployed in problem districts and strengthening of the internal IT systems and processes. The company reported a collection efficiency of 99.4% and 97.5% as on June 30, 2019 for disbursements made post January 2018 and in CY2017, respectively. This led to improved asset quality indicators with the gross NPA improving to 2.80% as on June 30, 2019 from 4.23% as on March 31, 2018. The company's ability to sustain these collections over time and keep its asset quality under check would be critical from a credit perspective.

Improved profitability indicators although partially supported by DA income – SCNL currently lends through the joint liability group (JLG) model at an interest rate of 22%. Its overall profitability indicators improved in FY2019 on account of a moderation in credit costs from FY2018 levels. SCNL's net interest margin (NIM), as a percentage of average managed assets, remained stable at 7.15% in FY2019 compared to 7.30% in FY2018 as the improvement in yields was offset by an increase in the cost of funds. The cost-to-income ratio remained stable at 65.94% in FY2019 compared to 63.84% in FY2018 while operating expenses, as a percentage of average managed assets, increased marginally to 4.98% from 4.70% during this period. SCNL's credit and provision costs, as a percentage of average managed assets, declined to 0.69% in FY2019 from 0.76% for FY2018 (under Ind AS as the company moved to the expected credit loss (ECL) methodology) during the fiscal. This resulted in SCNL reporting a return on managed assets (RoMA) and return on equity (RoE) of 2.62% and 19.08%, respectively, in FY2019 vis-à-vis 1.44% and 10.74%, respectively, in FY2018. However, since the company has done a high amount of DA transactions in FY2019 and the income from such transactions is upfronted under Ind AS, this also led to the improved profitability indicators.

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 actions.

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 audits are conducted: full branch audits (12 days), short branch audits (10 days) and region audits (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

Significant regional concentration continues despite improved geographical presence – SCNL has expanded its geographical presence to 22 states/UTs as on June 30, 2019 as it opened branches in five new states/UTs (Tripura, Meghalaya, Tamil Nadu, Karnataka and Pondicherry) in FY2019. Although its geographic diversification has improved with the share of Uttar Pradesh and Madhya Pradesh declining to 24% and 6%, respectively, as on June 30, 2019 from 43% and 19%, respectively, as on March 31, 2015, the share of the top states remains high with the top 3 states comprising 50% of the AUM as on June 30, 2019. Even at a district level, the top 10 districts accounted for 14% of the overall AUM and 74% of the net worth as on June 30, 2019. However, as the company continues to expand in underpenetrated geographies, the geographical concentration is expected to improve. SCNL aims to bring down its exposure to any single state below 20% of the overall portfolio by March 2020.

Increasing capital investments 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 (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. Till June 30, 2019, SCNL had Rs. 217.60-crore investments in these three subsidiaries, of which Rs. 77.54 crore and Rs. 30 crore was invested in FY2019 and Q1 FY2020, respectively. The company plans to invest another Rs. 350-450 crore over the next 2-3 years. Moreover, SCNL has extended debt funding of ~Rs. 100 crore to these subsidiaries as on June 30, 2019. Given its net worth of Rs. 1,300.34 crore as on June 30, 2019, SCNL's ability to match its capital raisings 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 asset quality as the portfolio seasons will also 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, the ALM mismatches for the subsidiaries 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

The company had **strong** liquidity in the form of unencumbered cash and liquid balances of Rs. 1,786 crore, which is sufficient to cover its repayments over the next 6 months without assuming collections from maturing advances. Additionally, the company has sanctions in hand of Rs. 1,412 crore as on June 30, 2019, which can meet its disbursements for the next ~2 months without factoring in the collections from maturing advances. The liquidity profile is also supported by principal inflows from loan repayments to the tune of ~Rs. 1,762 crore till December 31, 2019 against scheduled principal debt repayment of Rs. 1,350 crore. As the advances comprise relatively shorter-tenure microfinance loans compared to the tenure of borrowed funds, the ALM profile remains comfortable with surpluses across various maturity buckets. As per the ALM statement for June 30, 2019, SCNL had cumulative surpluses of 25% and 36% of the total outflows in the 3-month and 6-month buckets, respectively. However, it would be important for SCNL to maintain its collection efficiency while ensuring the regular flow of funds to meet its internal growth projections.

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 geographical diversification, good asset quality and prudent capitalisation with managed gearing[1] below 5 times on a sustained basis, could result in a rating upgrade.

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

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

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Non-Banking Finance Companies
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 1,024 branches in the country as on June 30, 2019.

SCNL is listed on the National Stock Exchange of India Limited, Bombay Stock Exchange and Calcutta Stock Exchange. As on June 30, 2019, the company's standalone portfolio stood at Rs. 6,467 crore. It reported a profit after tax (PAT) of Rs. 195 crore on a managed asset base of Rs. 8,621 crore in FY2019 against PAT of Rs. 82 crore on a managed asset base of Rs. 6,272 crore in FY2018. SCNL's regulatory capital adequacy as on March 31, 2019 stood at 28.49% and its gross and net NPA stood at 2.80% and 1.66%, respectively.

Key financial indicators (audited; Ind AS)

	FY2018	FY2019
Total Income (Rs. crore)	976.75	1,373.04
PAT (Rs. crore)	82.15	194.94
Net Worth (Rs. crore)	891.90	1,151.42
Total Managed Portfolio (net; Rs. crore)	4,854.22	6,374.09
Total Managed Assets (Rs. crore)	6,271.56	8,621.37
RoMA (%)	1.44%	2.62%
RoE (%)	10.74%	19.08%
Gearing (times)	5.82	4.60
Managed gearing (times)	6.37	5.59
Gross NPA (%)	4.23%	2.80%
Net NPA (%)	1.46%	1.66%
Net NPA / Net Worth (%)	7.50%	9.22%
CAR (%)	23.65%	28.49%

Source: ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018		FY2017
					27-Sep-2019	24-Aug-2018	13-Mar-2018	12-Dec-2017	16-Mar-2017 & 22-Mar-2017
1	Commercial Paper	Short Term	200.00	0.00	[ICRA]A1	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A2
2	NCD	Long Term	190.00	130.00	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)
3	Subordinated Debt	Long Term	128.00	128.00	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)
4	Preference share	Long term	45.00	0.00	-	[ICRA]BBB+ (hyb) (Stable)	[ICRA]BBB (hyb) (Stable)	[ICRA]BBB (hyb) (Negative)	-

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

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)
INE836B07246 INE836B07253	NCD - 2	30-Jun-16	12.50%	30-Jun-19	60	[ICRA]A- (Stable); Withdrawn
INE836B07279 INE836B08145	NCD – 3	3-Nov-16	13.35%	30-Nov-20	50	[ICRA]A- (Stable)
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 INE836B08129 INE836B08137	Sub-debt – 5	29-Jun-16	15.00%	30-Sep-22	40	[ICRA]A- (Stable)
INE836B08095	Sub-debt - 6	28-Jun-16	15.50%	28-Sep-22	10	[ICRA]A- (Stable)
INE836B03021	Preference Share – 1	28-Dec-17	0.01%	28-Jun-19	45	[ICRA]BBB+ (hyb) (Stable); Withdrawn

Source: SCNL

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

Analyst Contacts

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Anil Gupta
+91 124 4545 314
anilg@icraindia.com

Saagar Malhotra
+91 124 4545 308
saagar.malhotra@icraindia.com

Deeksha Agarwal
+91 124 4545 833
deeksha.agarwal@icraindia.com

Relationship Contact

L Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999