April 12, 2022

Satin Creditcare Network Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	200	200	[ICRA]A1; reaffirmed
Non-convertible Debentures	25	25	[ICRA]A- (Negative); reaffirmed
Subordinated Debt	100	100	[ICRA]A- (Negative); reaffirmed
Long-term Fund-based Term Loan Facilities Programme	40	40	[ICRA]A(CE) (Stable); outstanding
Total	**365**	**365**	

**Instrument details are provided in Annexure-1*

For the credit enhanced rating of the entity, refer to the rationales given in the structured finance section here

Rationale

The ratings reaffirmation continues to factor in Satin Creditcare Network Ltd.'s (SCNL) established presence in the Indian microfinance landscape as it is one of the largest players in the sector as per portfolio size. Further, its healthy geographical diversification, experienced management team, and good systems and processes support its credit profile. SCNL had witnessed a steady growth in its assets under management (AUM) till March 2021. However, its disbursements were impacted by the Covid-19 pandemic-induced disruptions and it report an annualised degrowth of ~21% in its AUM to Rs. 6,123 crore as on December 31, 2021 (Rs. 7,275 crore as on March 31, 2021).

On a consolidated basis, SCNL and its three wholly-owned subsidiaries[1] reported an AUM of Rs. 7,218 crore as on December 31, 2021 compared to Rs. 8,380 crore as on March 31, 2021, witnessing a decline of ~14% (annualised). Nevertheless, ICRA takes note of the improvement in disbursements in Q2 and Q3 FY2022 with further improvement expected in Q4 FY2022. The ratings also factor in the company's geographically spread operations, its diversified funding profile and strong liquidity position in the form of on-book liquidity and unavailed sanctioned lines.

The ratings, however, remain constrained by the deterioration in the asset quality because of the disruptions caused by the pandemic. SCNL reported gross non-performing assets (GNPA) of 8.6% as on December 31, 2021 (8.4% as on March 31, 2021) compared to 3.3% as on March 31, 2020. ICRA notes that the GNPA had increased significantly during the pandemic. Moreover, a large part of the loan book was restructured under the Reserve Bank of India's (RBI) Resolution Framework for Covid-19-related stress, the share of which stood at ~17% of SCNL's standalone AUM as on December 31, 2021. However, the risk is mitigated to some extent by the provision coverage ratio (PCR) of ~69% on the GNPAs and more than 20% on the restructured book.

With the deterioration in the asset quality and elevated credit costs, the company's profitability profile remains weak. It reported a standalone loss of ~Rs. 19 crore in 9M FY2022 vis-à-vis a net loss of Rs. 14 crore in FY2021. On a consolidated basis, the reported loss for 9M FY2022 was higher at ~Rs. 36 crore as TFSL reported higher losses on account of elevated credit costs and a decline in its operational efficiency. However, ICRA takes note of the improvement in SCNL's pre-provision operating

[1] Subsidiaries include Taraashna Financial Services Limited (TFSL; operating as a business correspondent (BC) for various lenders), Satin Finserv Limited (SFL; operating in micro, small and medium enterprise (MSME) segment) and Satin Housing Finance Limited (SHFL; operating in affordable housing finance segment)

profits (PPOP) in Q3 FY2022 over Q2 FY2022 and expects the trend to continue in Q4 FY2022, which shall provide adequate cushion for absorbing incremental expected credit costs.

The ratings also factor in the risks associated with the unsecured nature of microfinance loans, the marginal borrower profile, which is susceptible to income shocks, and the political and operational risks inherent in the microfinance business. Moreover, there is scope for improvement in the geographical diversification of operations.

The outlook remains Negative given the high delinquencies, the pressure on profitability and growth in light of the pandemic, and the continuing stress on the asset quality metrics because of the pandemic. Consequently, the credit cost is expected to remain elevated in FY2022 as well, which would keep the profitability weak. SCNL's ability to improve the asset quality, control the credit costs and improve the profitability would remain a key rating monitorable.

Key rating drivers and their description

Credit strengths

One of the largest players in microfinance industry with established track record – SCNL has an established track record of operations of more than three decades in the finance industry and is one of the largest players in the microfinance industry with an AUM of Rs. 6,123 crore as on December 31, 2021 compared to Rs. 7,275 crore as on March 31, 2021 (Rs. 7,220 crore as on March 31, 2020). Through its subsidiaries, SCNL has 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). SHFL and SFL have turned profitable and are operating at low leverage levels and have relatively better asset quality, however, these subsidiaries are in nascent stages of operations. ICRA takes note of management's plan of growing business in these subsidiaries at a relatively faster pace.

Diversified funding profile – SCNL has a well-diversified funding profile comprising more than 50 active lenders as on December 31, 2021. Its funding profile has improved steadily over time with term loans from banks and non-banking financial companies (NBFCs)/financial institutions (FIs) accounting for ~48%, outstanding non-convertible debentures (NCDs) accounting for ~28% and securitisation/assignment and other sources accounting for the balance (~24%) as on December 31, 2021.

Geographically spread operations – SCNL has a wide geographical reach with a presence in 23 states and Union Territories (UTs) across 375 districts through 1,028 branches as on December 31, 2021 (18 states and UTs across 302 districts and 809 branches as on March 31, 2018). At the district level, the share of the top 10 districts in SCNL's standalone AUM was ~14% as on December 31, 2021 against ~20% in March 2018. The diversification at the district level has been improving slowly and as the company expands further in states with a lower share, the diversification would improve. As on December 31, 2021, only 1 district had a share of more than 2% in the AUM.

Good information systems and in-house information technology team – SCNL has an in-house software system, which helps it 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 efficiency. The company disburses ~100% of the loans through the cashless mode while 10-12% of the incremental collections are cashless or via cash management system (CMS) vendors. 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. The company has also rolled out its customer service application, which provides the borrower with complete digital real-time access to the credit details pertaining to her loan with SCNL.

Credit challenges

Weak profitability on account of deterioration in asset quality due to pandemic – SCNL reported GNPAs of 8.6% as on December 31, 2021 (8.4% as on March 31, 2021) compared to 3.3% as on March 31, 2020. The deterioration in the asset quality was on account of the pandemic. SCNL also has a relatively larger restructured loan book at around 17% of its standalone AUM as on December 31, 2021. However, the risk is mitigated to some extent by the healthy PCR of around 69% on the GNPAs and more than 20% on the restructured book. Further, the management's ability to make recoveries from the stressed book under the GNPAs and the restructured portfolio shall be key for its credit profile.

With the deterioration in the asset quality and elevated credit costs, the company's profitability remains weak. It reported a standalone and consolidated loss of Rs. 19 crore and Rs. 36 crore, respectively, in 9M FY2022 vis-à-vis a standalone as well as consolidated net loss of Rs. 14 crore in FY2021. ICRA notes that SCNL reported a standalone profit of ~Rs. 40 crore in Q3 FY2022 on account of negligible credit costs during the quarter. Going forward, its ability to control its credit costs and improve its profitability would be critical.

Relatively higher managed gearing; subsidiaries might require further capital for growth plans – SCNL's standalone adjusted gearing[2] was 7.4 times as on December 31, 2021 compared to 5.4 times as on March 31, 2021. The increase was on account of the decline in the net worth in 9M FY2022 on account of the reported losses in addition to the marginal infusion of ~Rs. 6 crore in subsidiaries. However, ICRA notes that the company had raised ~Rs. 30 crore via right issue during H1 FY2022 and has been able to raise ~Rs. 75 crore of capital in the form of equity shares and share warrants in Q4 FY2022. This, along with the further expected capital infusion of Rs. 150 crore in FY2023, shall improve its gearing level. ICRA expects that the subsidiaries, i.e. SFL (gearing of 0.8 times in December 2021), SHFL (gearing of 1.8 times in December 2021) and TFSL (proposed to be amalgamated with SFL), might require further capital infusion from SCNL to be able to grow their books while maintaining comfortable leverage levels.

Marginal borrower profile and limited product and revenue diversification – Although SCNL has ventured 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. 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 a 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 over 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 and unavailed sanctions (Rs. 320 crore as on December 31, 2021) are sufficient to cover 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

Positive factors – ICRA could revise the outlook if the company demonstrates an improvement in its asset quality and profitability indicators while maintaining a prudent capitalisation profile.

Negative factors – Pressure on the ratings could arise if there is further deterioration in the asset quality, which could affect the profitability. A weakening in the earnings profile with the return on managed assets (RoMA) staying below 1.5% on a sustainable basis could 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.

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[2] *Adjusted gearing = (Total on-book debt – first loss default guarantee (FLDG) towards BC book + direct assignment (DA) book) / (Net worth – investment in subsidiaries)*

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 consolidated financial profile of the company

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 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 Ltd. 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 2005 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 it had 1,028 branches spread across the country as on December 31, 2021.

SCNL is listed on the National Stock Exchange of India Limited (NSE) and Bombay Stock Exchange (BSE). As on December 31, 2021, the company's standalone AUM was Rs. 6,123 crore and consolidated AUM was Rs. 7,218 crore. On a 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 a 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 Ltd.	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
Gearing (times)	4.8	4.0	4.3	NA
Adjusted gearing (times)	6.2	5.7	5.5	NA
Gross stage 3 (%)^	3.9%	3.3%	8.4%	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*
All ratios and values are as per ICRA's 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				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					Apr 12, 2022	Jul 20, 2021	Apr 23, 2021	Aug 4, 2020	Sep 27, 2019
1	Commercial Paper	Short Term	200	25	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**
2	NCD Programme	Long Term	25	16.7	**[ICRA]A- (Negative)**	**[ICRA]A- (Negative)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**
3	Subordinated Debt	Long Term	100	100	**[ICRA]A- (Negative)**	**[ICRA]A- (Negative)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD programme	Simple
Subordinated Debt	Moderately complex
Commercial Paper	Very 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: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE836B14234	CP programme	Jan-17-2022	9.95%	Jun-30-2022	25.00	[ICRA] A1
Not issued	CP programme	NA	NA	NA	175.00	[ICRA] A1
INE836B07477	NCD programme	Jul-31-2020	10.95%	Jul-31-2023	25.00	[ICRA]A- (Negative)
INE836B08046	Subordinated Debt	Jul-29-2016	15.00%	Jul-29-2023	25.00	[ICRA]A- (Negative)
INE836B08061	Subordinated Debt	Dec-30-2015	15.50%	Apr-15-2022	25.00	[ICRA]A- (Negative)
INE836B08103	Subordinated Debt	Jun-29-2016	15.00%	Sep-30-2022	10.00	[ICRA]A- (Negative)
INE836B08111	Subordinated Debt	Jun-29-2016	15.00%	Sep-30-2022	10.00	[ICRA]A- (Negative)
INE836B08129	Subordinated Debt	Jun-29-2016	15.00%	Sep-30-2022	10.00	[ICRA]A- (Negative)
INE836B08137	Subordinated Debt	Jun-29-2016	15.00%	Sep-30-2022	10.00	[ICRA]A- (Negative)
INE836B08095	Subordinated Debt	Jun-28-2016	15.50%	Sep-28-2022	10.00	[ICRA]A- (Negative)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	SCNL Ownership	Consolidation Approach
Taraashna Financial Services Limited	100.00%	Full Consolidation
Satin Finserv Limited	100.00%	Full Consolidation
Satin Housing Finance Limited	100.00%	Full Consolidation

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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.

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