September 19, 2022 (Revised)

Satin Creditcare Network Ltd.: Ratings reaffirmed/ assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper	200.00	200.00	[ICRA]A1; Reaffirmed
Non-convertible debentures	25.00	25.00	[ICRA]A- (Negative); reaffirmed
Subordinated debt	100.00	100.00	[ICRA]A- (Negative); reaffirmed
Long-term/ short-term fund-based term bank facilities programme	-	2,500.00	[ICRA]A- (Negative)/ [ICRA]A1; assigned
Long-term fund-based term loan facilities programme	40.00	40.00	[ICRA]A (CE) (Stable); outstanding
Total	**365.00**	**2,865.00**	

**Instrument details are provided in Annexure I*

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

Rationale

The rating action factors in Satin Creditcare Network Ltd.'s (SCNL) established presence in the Indian microfinance landscape as one of the largest players in the sector as per portfolio size. SCNL reported consolidated assets under management (AUM) of Rs. 7,569 crore as on June 30, 2022 (after write-offs of ~Rs. 275 crore in Q1 FY2023) compared to Rs. 7,617 crore as on March 31, 2022. Further, its healthy geographical diversification, experienced management team, and good systems and processes support its credit profile. The ratings also factor in the company's diversified funding profile and its strong liquidity position in the form of on-book liquidity and unavailed sanctioned lines.

The ratings, however, also consider the weakening of SCNL's consolidated profitability profile, given the sizeable credit cost booked in Q1 FY2023, because of lower-than-anticipated recoveries from the restructured book, which came out of the moratorium in April 2022. It reported a consolidated loss of Rs. 210 crore in Q1 FY2023[1] vis-à-vis a net profit of Rs. 21 crore in FY2022. This led to a decline in the consolidated net worth in Q1 FY2023 and hence, the managed gearing[2] increased to 5.8 times (estimated) as on June 30, 2022 from 5.0 times as on March 31, 2022. ICRA, however, notes that SCNL has share warrants, which are yet to be converted in equity shares, from where it can raise a capital of Rs. 150 crore to support its capitalisation profile.

The ratings also take into consideration SCNL's sizeable monitorable book, which includes a standard restructured book of Rs. 561 crore, security receipts (SRs)[3] of Rs. 117 crore and gross non-performing assets (GNPAs) of Rs. 217 crore (4.4%) as on June 30, 2022, which cumulatively accounted for ~14% of its standalone AUM as on June 30, 2022. ICRA estimates that the incremental credit cost in FY2023 would be limited, given the healthy provisions already maintained by the company. Nevertheless, ICRA would continue to monitor the performance of its stressed book and any higher-than-anticipated credit costs may impact its credit profile.

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[1] *On a standalone basis, the company reported a profit of Rs. 60 crore in Q1 FY2023, aided by the fair valuation gain on its investment in subsidiaries*

[2] *Managed gearing = (on-book debt + off-book portfolio) / net worth; Net worth adjusted for goodwill*

[3] *SCNL sold some stressed assets to an asset reconstruction company (ARC) in Q4 FY2022 and Q1 FY2023*

Further, the ratings continue to 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.

SCNL also faces prepayment risk, given the possibility of debt acceleration upon the breach of covenants, including financial, operating and rating-linked covenants. Upon failure to meet the covenants, if the company is unable to get waivers from the lenders/investors or the lenders/investors do not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans, the ratings would face pressure. Nevertheless, ICRA notes that the company has been able to raise fresh funds, despite covenant breaches in the last 1-2 years.

The outlook remains Negative, given the high monitorable book, the performance of which remains to be seen. SCNL's ability to recover from its stressed book, improve its asset quality, control the credit costs and improve the profitability would remain 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 a consolidated AUM of Rs. 7,569 crore as on June 30, 2022 (Rs. 7,617 crore as on March 31, 2022 and Rs. 8,379 crore as on March 31, 2021). Through its subsidiaries, SCNL has diversified its product base into other asset classes like affordable housing (ticket size of up to Rs. 40 lakh), micro, small and medium enterprise (MSME) finance (ticket size of Rs. 15 lakh) and wholesale lending (ticket size up to Rs. 10 crore). Satin Housing finance Limited (SHFL) and Satin Finserv Limited (SFL) have turned profitable and are operating at low leverage levels with relatively better asset quality. However, these subsidiaries are at a nascent stage of the operations. ICRA takes note of the management's plan to grow the business in these subsidiaries at a relatively faster pace.

Diversified funding profile – SCNL has a well-diversified funding profile comprising 59 active lenders as on June 30, 2022. Its funding profile has improved steadily over time with term loans from banks and non-banking financial companies (NBFCs)/financial institutions (FIs) accounting for ~44%, outstanding non-convertible debentures (NCDs) accounting for ~19% and securitisation/assignment and other sources accounting for the balance (~37%) as on June 30, 2022.

Operations spread geographically – SCNL has a wide geographical reach with presence in 23 states and Union Territories (UTs) across 397 districts through 1,224 branches (at consolidated level) as on June 30, 2022. At the district level, the share of the top 10 districts in SCNL's standalone AUM was ~14% as on December 31, 2021. The diversification at the district level has been continuously improving and is likely to improve further as the company expands more in states with a lower share. As on December 31, 2021, only one 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 support 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. It 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 the company.

Credit challenges

Weak profitability, given deterioration in asset quality due to pandemic – SCNL reported standalone GNPA on its on-book portfolio of 4.4% as on June 30, 2022 compared to 8.0% as on March 31, 2022 (8.4% as on March 31, 2021). The improvement in the GNPAs was on account of a sizeable write-off done in Q1 FY2023. The total write-off was ~Rs. 275 crore in Q1 FY2023, which along with GNPA accounted for 9.3% of pre-write-off portfolio (on-book) as on June 30, 2022. The deterioration in the asset quality was on account of the Covid-19 pandemic-driven stress, impacting the livelihood of borrowers. SCNL had a restructured loan book of around 17% of its standalone AUM as on December 31, 2021, which declined to ~9% as on June 30, 2022 (driven by recoveries and write-offs from the restructured book). Furthermore, it sold some stressed assets in Q4 FY2022 and Q1 FY2023 to an asset reconstruction company (ARC), from which it received SRs of Rs. 117 crore as on June 30, 2022 (1.8% of its standalone AUM). This does not form a part of its reported GNPAs. ICRA notes that the risk is mitigated to a certain extent by the healthy provision coverage of ~52% on the GNPAs as on June 30, 2022.

With the deterioration in the asset quality and elevated credit costs, the company's profitability remains weak. It reported a consolidated loss of Rs. 210 crore in Q1 FY2023[4] vis-à-vis a consolidated net profit of Rs. 21 crore in FY2022. ICRA notes that SCNL incurred a substantial credit cost in Q1 FY2023 itself and incremental credit costs are expected to be limited. However, its ability to control its credit costs while reducing the stressed book and improve its profitability would remain monitorable.

Relatively higher managed gearing – SCNL's consolidated managed gearing[5] was 5.8 times as on June 30, 2022 (estimated) compared to 5.0 times as on March 31, 2022 (5.9 times as on March 31, 2021). The increase in the managed gearing was on account of the decline in the net worth in Q1 FY2023 on account of the reported losses. However, ICRA notes that the company is in the process of raising capital of around Rs. 150 crore[6] in the near term. ICRA expects the requirement for capital towards the growth of the subsidiaries and for absorption of any further credit losses.

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, given the unsecured nature. 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, as observed during the pandemic. SCNL's ability to onboard 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. 1,017 crore as on June 30, 2022 with debt obligations (including interest) of Rs. 1,585 crore due over the next six months. Factoring in collections of Rs. 2,137 crore due over the next six months, SCNL's liquidity position is strong. Even with NIL collections, SCNL's liquidity, along with unavailed sanctions (Rs. 350 crore as on June 30, 2022), would be sufficient to cover three months of debt obligations and operational expense requirements. Nevertheless, 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 to Positive or upgrade the ratings if the company is able to improve its profitability on a sustainable basis, while improving its asset quality indicators and maintaining adequate capitalisation and managed gearing levels.

Negative factors – Pressure on the ratings could arise if there is a further deterioration in the asset quality, which could affect the profitability. A sustained weakening in the earnings profile or 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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[4] On a standalone basis, the company reported a profit of Rs. 60 crore in Q1 FY2023, aided by a fair valuation gain on its investment in subsidiaries

[5] Managed gearing = (on-book debt + off-book portfolio) / net worth; Net worth is adjusted for goodwill

[6] This is a part of the Rs. 225-crore capital raise plan approved in December 2021, of which Rs. 75 crore was raised in Q4 FY2022

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies Rating approach - Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company

About the company

SCNL, 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 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 February 2009 and converted it into an NBFC-microfinance institution (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 1,031 branches in the country as on June 30, 2022 on a standalone basis and 1,224 branches for the group as a whole.

SCNL is listed on the National Stock Exchange of India Limited (NSEand Bombay Stock Exchange (BSE). As on June 30, 2022, the company's consolidated AUM stood at Rs. 7,569 crore. It reported a net loss of Rs. 210 crore in Q1 FY2023 against a net profit of Rs. 21 crore in FY2022 at the consolidated level.

Key financial indicators (audited; consolidated)

Satin Creditcare Network Ltd.	FY2020	FY2021	FY2022	Q1 FY2023*
Accounting as per	**Ind AS**	**Ind AS**	**Ind AS**	**Ind AS**
Total income	1,503	1,374	1,381	345
Profit after tax	155	(14)	21	(210)
Net worth	1,415	1,452	1,548	1,339
Gross AUM	8,174	8,379	7,617	7,569
Total managed assets	10,729	10,682	9,988	NA
Return on average managed assets	1.6%	-0.1%	0.2%	NA
Return on average net worth	12.2%	-1.0%	1.4%	NA
On-book gearing (times)	4.0	4.3	3.7	4.2
Managed gearing (times)	5.8	5.9	5.0	5.8
GNPA (standalone)	3.2%	8.4%	8.0%	4.4%
NNPA (standalone)	1.8%	4.7%	2.4%	2.2%
Solvency (NNPA/Net worth)	6.4%	17.8%	7.6%	6.3%
CRAR (standalone)	30.5%	25.3%	27.8%	22.6%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore
Managed gearing = (on-book debt + off-book portfolio) / net worth; Net worth is adjusted for goodwill
Total managed assets = Total of balance sheet + ECL provision + off-book portfolio - Goodwill
** Limited review numbers for Q1 FY2023; net worth and gearing on estimated basis*
GS-3, NS-3, NS-3/ Net worth and CRAR 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	Amount Rated (Rs. crore)	Amount Outstanding as of Aug 31, 2022 (Rs. crore)	Date & Rating		Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					Sep 19, 2022	Apr 12, 2022	Jul 20, 2021	Apr 23, 2021	Aug 4, 2020	Sep 27, 2019
1	Commercial paper	Short term	200	20	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
2	NCD programme	Long term	25	8.33	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	Subordinated debt	Long term	100	75	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
4	Bank Facilities programme	Long term/ Short term	2,500	1,729.94	[ICRA]A- (Negative)/ [ICRA]A1					
5	Preference share programme	Long term	-	-	-	-	-	-	-	[ICRA]BBB+ (hyb)(Stable); Withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD programme	Simple
Subordinated debt	Moderately complex
Commercial paper	Very simple
Bank Facilities programme	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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE836B14267	**CP programme**	Aug-05-22	10.80%	Nov-09-22	20.00	[ICRA] A1
Not issued	**CP programme**	NA	NA	NA	180.00	[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%	Dec-31-2023	10.00	[ICRA]A- (Negative)
INE836B08111	**Subordinated debt**	Jun-29-2016	15.00%	Dec-31-2023	10.00	[ICRA]A- (Negative)
INE836B08129	**Subordinated debt**	Jun-29-2016	15.00%	Dec-31-2023	10.00	[ICRA]A- (Negative)
INE836B08137	**Subordinated debt**	Jun-29-2016	15.00%	Dec-31-2023	10.00	[ICRA]A- (Negative)
INE836B08095	**Subordinated debt**	Jun-28-2016	15.50%	Sep-28-2022	10.00	[ICRA]A- (Negative)
NA	**LT/ST Bank Facilities programme (Fund based-others)**	NA	NA	NA	2,500.00	[ICRA]A- (Negative)/ [ICRA]A1

Source: Company; CP details and bank facilities as on August 31, 2022

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: 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

Corrigendum

On page 4, “Rating approach – Consolidation” had been missed inadvertently, which has been added now.

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