June 2, 2023

Satin Creditcare Network Ltd.: Rating reaffirmed for term loan facility

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)^	Rating Action
Term loan	23.92	7.66	[ICRA]A(CE) (Stable); reaffirmed
Commercial paper	200.00	200.00	[ICRA]A1; outstanding
Non-convertible debentures	75.00	75.00	[ICRA]A-(Negative); outstanding
Subordinated debt	100.00	100.00	[ICRA]A-(Negative); outstanding
Long-term/Short-term fund-based term bank facilities programme	2,500.00	2,500.00	[ICRA]A-(Negative)/[ICRA]A1; outstanding
Total	**2,898.92**	**2,882.66**	

Rating Without Explicit Credit Enhancement	[ICRA]A-

**Instrument details are provided in Annexure I; ^Term loan outstanding after March 2023 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

ICRA has reaffirmed the rating assigned to the term loan facility of Satin Creditcare Network Ltd. (SCNL). The rating action takes into account the structural features available in the transaction such that the cover pool, along with the cash collateral (CC), would be utilised to support the servicing of the rated instruments in the event of non-payment by SCNL according to the expected schedule. The key structural features of the rated instrument are summarised below.

Instrument	Trust Name	Security Cover	Structural Feature
Rs. 7.66-crore term loan	Vivriti Venus Trust 2020	Minimum 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 trustee of the rated term loan

^The cover pool requirement is calculated on the outstanding principal of the term loan

The rating is based on the strength of the presence of a cover pool (22% over-collateralisation as a percentage of the initial loan outstanding) and a CC (Rs. 0.8 crore; 2% of the initial loan amount) to support the servicing of the loan facility in the event of non-payment by SCNL. SCNL has executed an assignment agreement and a power of attorney, wherein it has agreed to assign the cover pool assets to Vivriti Venus Trust 2020 (Trust) on the occurrence of a predefined trigger event during the tenure of the rated facility. On the occurrence of a trigger event, there would not be any requirement of any further deed or action for the assignment by SCNL. Post assignment, the Trust shall become the legal owner of the assigned receivables (i.e. the cover pool assets shall be bankruptcy remote from the other creditors of SCNL). In turn, the Trust will provide an unconditional and irrevocable guarantee to the lender of the rated facility and would transfer all collections from the cover pool to the lender under its guarantee obligation.

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

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

Rs. 40.00-crore term loan (initial amount; Vivriti Venus Trust 2020): Click here

Key rating drivers and their description

Credit strengths

Presence of cover pool and CC to support servicing of loan 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 CC will be available to the lender. The principal as well as the interest amount on the term loan are promised to the lender 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

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

Performance of the pool would remain exposed to macro-economic shocks/business disruptions – The rating factors in the risks associated with macro-economic shocks (if any) faced by the borrowers, which could affect the continuity of business operations and the possible adverse impact on the asset quality if cash flows and economic activity slow down, post a trigger event.

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. This imparts significant liquidity support to the instrument. The cash flows from the cover pool, along with the CC, are expected to be comfortable to service the debt if the entity is unable to meet the expected payments on the term loan.

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

SCNL had a free cash and liquid balance of Rs. 1,274 crore as on December 31, 2022 with debt obligations (including interest) of Rs. 1,530 crore due over the next six months. Factoring in collections of Rs. 1,899 crore due over the next six months, SCNL's liquidity position is strong. Even with NIL collections, the company's liquidity along with unavailed sanctions (Rs. 674 crore as on December 31, 2022) would be sufficient to cover three months of debt obligations and operational expense requirements.

Rating sensitivities

Positive factors – The rating could be upgraded on an increase in the cover available for future covered loan repayments from the credit enhancement as well as an improvement in SCNL's credit profile.

Negative factors – The rating could be downgraded on the non-adherence to the key transaction terms envisaged at the time of the initial rating. The rating could also come under pressure in case of a deterioration in SCNL's credit profile or in the credit quality of the cover pool.

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

Satin Creditcare Network Ltd. (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 non-banking financial company (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 1,078 branches in the country, as on March 31, 2023, on a standalone basis, and 1,287 branches for the Group as a whole.

SCNL is listed on National Stock Exchange of India Limited (NSE) and Bombay Stock Exchange (BSE). As on March 31, 2023, the company's consolidated managed portfolio stood at Rs. 9,115 crore. It reported a net profit of Rs. 5 crore in FY2023 against a net profit of Rs. 21 crore in FY2022 at the consolidated level.

Key financial indicators (audited)

Consolidated	FY2021	FY2022	FY2023
Total income	1,374^	1,381	1,559
Profit after tax	(14)	21	5
Gross AUM	8,379	7,617	9,115
Gross stage 3	8.4%	8.0%	3.3%
Net stage 3	4.7%	2.4%	1.5%

Source: Company, ICRA Research; All ratios and values are as per ICRA's calculations; Net stage 3 (%) = Net stage 3 / Gross loan book
Gross and net stage 3 ratios are on standalone basis
Amount in Rs. crore
^Adjusted for fair value losses

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

<table>
<tr><th rowspan="3">Sr. No.</th><th rowspan="3">Instrument</th><th colspan="4">Current Rating (FY2024)</th><th colspan="4">Chronology of Rating History for the Past 3 Years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Initial Amount Rated (Rs. crore)</th><th rowspan="2">Amount Outstanding (Rs. crore)</th><th>Date & Rating in FY2024</th><th>Date & Rating in FY2023</th><th>Date & Rating in FY2022</th><th colspan="2">Date & Rating in FY2021</th></tr>
<tr><th>June 02, 2023</th><th>April 18, 2022</th><th>-</th><th>March 18, 2021</th><th>October 05, 2020</th></tr>
<tr><td>1</td><td>Term loan</td><td>Long term</td><td>40.00</td><td>7.66</td><td>[ICRA]A(CE) (Stable)</td><td>[ICRA]A(CE) (Stable)</td><td>-</td><td>[ICRA]A(CE) (Stable)</td><td>Provisional [ICRA]A (CE) (Stable)</td></tr>
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For details on other ICRA-rated instruments of the company, refer to the rationale here

Complexity level of the rated instrument

Transaction Name	Instrument	Complexity Indicator
Vivriti Venus Trust 2020	Term Loan	Moderately 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: Click Here

Annexure I: 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^	7.66	[ICRA]A(CE) (Stable)

^Expected maturity date; Legal maturity date is Sep 2024

Source: Company

For details on other ICRA-rated instruments of the company, refer to the rationale here

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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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.

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

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