August 02, 2024

Satin Creditcare Network Limited: [ICRA]A (Stable) assigned to Rs. 500-crore NCD programme

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; outstanding
Non-convertible debentures	1,050.00	1,050.00	[ICRA]A (Stable); outstanding
Non-convertible debentures^	200.00	200.00	[ICRA]A (Stable); outstanding
Subordinated debt	50.00	50.00	[ICRA]A (Stable); outstanding
Non-convertible debentures	-	500.00	[ICRA]A (Stable); assigned
Long-term/short-term fund-based term bank facilities programme	4,500.00	4,500.00	[ICRA]A (Stable)/[ICRA]A1; outstanding
Total	**6,000.00**	**6,500.00**	

**Instrument details are provided in Annexure I*

^Proposed public issuance

Rationale

The ratings factor in Satin Creditcare Network Limited's (SCNL) healthy consolidated[1] profitability metrics. This, along with the capital raise in Q3 FY2024, has helped the company maintain an adequate capitalisation profile while expanding its scale of operations. Further, its established track record, wide geographical presence and diversified funding profile continue to support the ratings.

SCNL registered an annualised growth of ~30% in FY2024 and reported consolidated assets under management (AUM) of Rs. 11,850 crore as on March 31, 2024 spread across 421 districts in 26 states/Union Territories (UTs). Further, the company saw an improvement in its profitability metrics in FY2024, after witnessing weak profitability in the past three fiscals due to the Covid-19 pandemic-induced impact on its operations and asset quality. The improvement was on account of the increase in the net interest margin (NIM), driven by higher yields, and lower credit costs given the reduction in delinquencies. While ICRA expects SCNL to maintain an adequate profitability profile going forward, its ability to maintain/improve the NIM and keep the credit cost under control shall remain a monitorable.

ICRA also notes that the company has been able to raise capital in a timely manner and expects it to continue doing so to maintain a cushion for growth and an adequate capitalisation profile. SCNL raised primary equity capital of Rs. 250 crore in December 2023, which helped reduce the managed gearing to 4.6 times as on March 31, 2024 from 5.4 times as on September 30, 2023 (5.5 times as on March 31, 2023).

The ratings are, however, constrained by the moderate asset quality metrics, though the same improved in FY2024, aided by write-offs, recoveries and growth in the loan book. Additionally, SHFL's unseasoned portfolio and the Group's (combined SCNL, SHFL and SFL) vulnerable borrower profile increase the susceptibility of the asset quality to external factors. The Group's ability to improve and maintain adequate asset quality metrics on a consistent basis shall remain a monitorable. The Group's consolidated on-book gross non-performing assets (GNPAs) stood at 2.5%, which, along with gross security receipts (SRs) of 0.7%, translated into an estimated gross stressed portfolio of 3.2% as on March 31, 2024. Further, SFL's off-book business correspondent (BC) portfolio had 90 days past due (dpd) against which the first loss default guarantee (FLDG) can be invoked

[1] Includes its two wholly-owned subsidiaries, namely Satin Housing Finance Limited (SHFL) and Satin Finserv Limited (SFL)

by the BC partners. However, ICRA notes that the company is carrying adequate provision for its stressed book and its net on-book stress (Net NPA + Net SRs) stood at 6.0% with respect to its consolidated net worth (adjusted for goodwill) as on March 31, 2024.

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, which has the highest share in the Group's consolidated AUM.

The Stable outlook on the long-term rating reflects ICRA's opinion that SCNL will be able to maintain a steady credit profile while expanding its scale of operations and keeping a prudent leverage profile.

Key rating drivers and their description

Credit strengths

Established track record of operations with healthy geographical diversification – SCNL has an established track record of operations of more than three decades in microfinance. It is one of the largest players in the microfinance industry with a consolidated AUM of Rs. 11,850 crore as on March 31, 2024 (annualised growth of ~30% in FY2024). SCNL has a wide geographical reach with a presence in 26 states and UTs across 421 districts through 1,393 branches (consolidated level) as on March 31, 2024. Uttar Pradesh (UP) accounted for 27% of the Group's AUM in March 2024, up from 24% in March 2022. SCNL's standalone AUM grew by ~34% in FY2024 to Rs. 10,593 crore as on March 31, 2024 from Rs. 7,929 crore as on March 31, 2023. ICRA expects UP's share to remain at a similar level, in line with the management's guidance.

Improvement in profitability metrics – SCNL reported an improvement in its consolidated profitability metrics in FY2024, after witnessing weak profitability in the past three fiscals due to the pandemic-induced impact on its operations and asset quality. It reported a consolidated profit after tax (PAT) of Rs. 436 crore in FY2024, translating into a return on average managed assets (RoMA) of 3.6% and a return on average net worth (RoNW) of 22.0% vis-à-vis Rs. 5 crore, 0.0% and 0.3%, respectively, in FY2023. The enhanced profitability in FY2024 was on account of the increase in the NIM, driven by higher yields, and lower credit costs with the gradual improvement in the asset quality indicators. While ICRA expects the Group to maintain an adequate profitability profile going forward, its ability to maintain/improve the NIM and keep the credit cost under control shall remain a monitorable.

At the standalone level, SCNL reported a PAT of Rs. 423 crore in FY2024, translating into RoMA of 3.7% and RoNW of 18.5% vis-à-vis Rs. 264 crore (including fair value gain on subsidiaries of Rs. 352 crore), 2.8% and 15.0%, respectively, in FY2023.

Adequate capitalisation profile supported by regular capital infusions – SCNL has demonstrated its ability to raise capital in a timely manner. It had raised equity of around Rs. 338 crore in FY2024 (Rs. 88 crore as a part of outstanding share warrants issued under a preferential issue approved in January 2022 and Rs. 250 crore via a qualified institutional placement). SCNL's consolidated managed gearing[2] was 4.6 times as on March 31, 2024 (5.5 times in March 2023) compared to 5.0 times as on March 31, 2022. ICRA expects the company to maintain a healthy cushion in its capital base to meet the envisaged growth.

At the standalone level, SCNL had a managed gearing of 3.7 times against 4.1 times in March 2023. It reported a capital-to-risk weighted assets ratio (CRAR) of 27.7% as on March 31, 2024.

Credit challenges

Moderate asset quality metrics – SCNL had moderate asset quality metrics at the consolidated level despite some improvement in the past few quarters. On a consolidated basis, it had GNPAs of 2.5%, which, along with SRs of 0.7% (estimated), translated into gross stress of 3.2% as of March 2024 vis-à-vis 5.1% in March 2023. Further, SFL's off-book BC portfolio had 90+ dpd against which the FLDG can be invoked by the BC partners. However, ICRA notes that the company is

[2] Managed gearing = (on-book debt + off-book portfolio) / net worth

carrying adequate provision for its stressed book. Its net on-book stress (Net NPA + Net SRs) stood at 6.0% with respect to its consolidated net worth (adjusted for goodwill) as on Mach 31, 2024.

SCNL reported standalone GNPAs of 2.5% on its on-book portfolio as on March 31, 2024 (3.3% as on March 31, 2023) compared to 8.0% as on March 31, 2022. The improvement was on account of substantial write-offs in FY2023 and FY2024. SCNL's standard restructured loan book had almost run down by March 2024, driven by recoveries and write-offs. Its total monitorable book (GNPA + SRs + standard restructured book) declined to 3.3% as on March 31, 2024 from 5.5% as on March 31, 2023. The company's ability to reduce/contain further slippages shall remain a key monitorable.

Political, communal and other risks, given the unsecured lending and marginal borrower profile – Although SCNL has ventured into housing and micro, small and medium enterprise (MSME) lending through its subsidiaries, its product diversification remains low with the concentration primarily in the microfinance segment. Also, its portfolio remains relatively risky, given the unsecured nature of the same. 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 witnessed 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.

SCNL's subsidiaries, SHFL and SFL, have a moderate track record; a major part of their AUM was disbursed in the past few quarters. Given the nascent stage of their operations and the significant growth witnessed in the portfolio in the past few quarters, their long-term performance is yet to be seen. Nonetheless, ICRA notes that the risk is somewhat mitigated as SHFL has an average loan-to-value (LTV) ratio of ~50% and the borrowers in SFL's retail MSME segment have a credit history and repayment track record with SCNL.

Environmental and social risks

Environmental – While microfinance institutions (MFIs) like SCNL do not face material physical climate risks, they are exposed to environmental risks indirectly through their portfolio of assets. If the borrowers, to whom such MFIs have an exposure, face livelihood disruption because of physical climate adversities, the same could translate into credit risks for MFIs. However, such risk is not material for SCNL as it benefits from adequate geographical diversification of its portfolio. Further, it provides loans with a tenure of around two years, which will allow it to adapt and take incremental exposure to borrowers facing relatively fewer downside environmental risks.

Social – With regard to social risks, data security and customer privacy are among the key sources of vulnerability for MFIs as material lapses could be detrimental to their reputation and invite regulatory censure. SCNL has not faced such lapses over the years, which highlights its sensitivity to such risks. Further, it contributes to promoting financial inclusion by lending to underserved women borrowers, largely in rural areas.

Liquidity position: Strong

SCNL had standalone on-book liquidity of Rs. 1,137 crore as on March 31, 2024, as per its asset-liability management (ALM) statement. Further, it had unavailed sanctioned lines of around Rs. 1,267 crore as on March 31, 2024. Against this, SCNL has debt obligations of Rs. 1,515 crore due over the 6-month period of April 2024 to September 2024 and estimated collections of Rs. 2,458 crore.

The Group has a strong liquidity profile with consolidated on-book liquidity of Rs. 1,271 crore as on March 31, 2024, as per the annual consolidated financials for FY2024. The liquidity profile is also supported by the diversified funding mix and demonstrated track record of raising funds from diverse sources.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company is able to grow its scale of operations, while maintaining adequate profitability (consolidated RoMA of more than 3.0%) and prudent capitalisation indicators, and improve its asset quality indicators on a sustained basis.

Negative factors – Pressure on the ratings could arise if the company witnesses a material deterioration in the asset quality metrics and/or profitability, with consolidated RoMA of less than 2%, on a sustained basis. Further, weakening of the capitalisation profile with a consolidated managed gearing of more than 5.5 times or a stretch in the liquidity could 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	For arriving at the ratings, ICRA has considered the consolidated financials of SCNL. As on March 31, 2024, the company had two subsidiaries, which are enlisted in Annexure II.

About the company

SCNL, set up in 1990 to grant 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 Limited. Following its conversion into a public limited company in 1994, it 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-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 1,236 branches in the country as on March 31, 2024 on a standalone basis and 1,393 branches for the Group as a whole.

As on March 31, 2024, its consolidated AUM stood at Rs. 11,850 crore. On a consolidated basis, it reported a net profit of Rs. 436 crore in FY2024 (total comprehensive income (TCI) of Rs. 442 crore) against Rs. 5 crore in FY2023 (TCI of negative Rs. 16 crore).

Key financial indicators (audited; consolidated)

Satin Creditcare Network Limited	FY2022	FY2023	FY2024
Accounting as per	**IndAS**	**IndAS**	**IndAS**
Total income	1,381	1,559	2,241
Profit after tax	21	5	436
Total managed assets	9,988	10,751	13,610
RoMA	0.2%	0.0%	3.6%
Managed gearing (times)	5.0	5.5	4.6
Gross NPA	7.5%	3.1%	2.5%

Source: Company, ICRA Research; Amount in Rs. crore

Key financial indicators (audited; standalone)

Satin Creditcare Network Limited	FY2022	FY2023	FY2024
Accounting as per	IndAS	IndAS	IndAS
Total income	1,262	1,762	2,051
Profit after tax	40	264	423
Total managed assets	8,984	10,070	12,922
RoMA	0.4%	2.8%	3.7%
Managed gearing (times)	4.2	4.1	3.7
Gross NPA	8.0%	3.3%	2.5%
CRAR	27.8%	26.6%	27.7%

Source: Company, ICRA Research; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information:

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.

Rating history for past three years

	Instrument	Current Rating (FY2025)					Chronology of Rating History for the Past 3 Years										
		Type	Amount Rated (Rs. crore)	Date & Rating in FY2025			Date & Rating in FY2024					Date & Rating in FY2023			Date & Rating in FY2022	
				Aug 02, 2024	May 10, 2024	Apr 19, 2024	Jan 16, 2024	Jan 8, 2024	Dec 26, 2023	Aug 31, 2023	Jun 9, 2023	Mar 28, 2023	Sep 19, 2022	Apr 12, 2022	Jul 20, 2021	Apr 23, 2021
1	**Commercial paper**	Short term	200	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
2	**NCD programme**	Long term	-	-	-	-	-	-	[ICRA]A (Stable); withdrawn	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)
3	**Subordinated debt**	Long term	-	-	[ICRA]A (Stable); withdrawn	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)
4	**Fund-based bank facilities programme**	Long term/ Short term	4,500	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A- (Stable)/ [ICRA]A1	[ICRA]A- (Stable)/ [ICRA]A1	[ICRA]A- (Negative)/ [ICRA]A1	-	-	-	-
5	**NCD programme**	Long term	50	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	-	-	-	-
6	**NCD programme**	Long term	500	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-	-	-	-
7	**Subordinated debt**	Long term	-	-	-	-	-	-	-	-	[ICRA]A- (Stable); withdrawn	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)
8	**NCD programme^**	Long term	200	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-	-	-	-	-	-

	Instrument	Current Rating (FY2025)					Chronology of Rating History for the Past 3 Years										
		Type	Amount Rated (Rs. crore)	Date & Rating in FY2025			Date & Rating in FY2024					Date & Rating in FY2023			Date & Rating in FY2022	
				Aug 02, 2024	May 10, 2024	Apr 19, 2024	Jan 16, 2024	Jan 8, 2024	Dec 26, 2023	Aug 31, 2023	Jun 9, 2023	Mar 28, 2023	Sep 19, 2022	Apr 12, 2022	Jul 20, 2021	Apr 23, 2021
9	**Subordinated debt**	Long term	-	-	-	-	-	-	**[ICRA]A (Stable); withdrawn**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Negative)**	**[ICRA]A- (Negative)**	**[ICRA]A- (Negative)**	**[ICRA]A- (Negative)**	**[ICRA]A- (Stable)**
10	**Subordinated debt**	Long term	50	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	-	-	-	-	-	-	-	-	-
11	**NCD programme**	Long term	500	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	-	-	-	-	-	-	-	-	-	-
12	**NCD programme**	Long term	500	**[ICRA]A (Stable)**	-	-	-	-	-	-	-	-	-	-	-	-

^ Proposed public issuance; NCD – Non-convertible debenture

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD programme	Simple
Subordinated debt	Moderately complex
Commercial paper	Very simple
Fund-based bank facilities programme	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 indi0063ated 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
Not issued	CP programme	NA	NA	NA	200.00	[ICRA]A1
INE836B08285	Subordinated debt	Jan-24	12.75%	Jul-29	50.00	[ICRA]A (Stable)
INE836B07717	NCD programme	Apr-23	10.95%	Oct-24	50.00	[ICRA]A (Stable)
INE836B07725	NCD programme	Jun-23	NA	Jun-25	20.00	[ICRA]A (Stable)
INE836B07733	NCD programme	Jun-23	NA	May-27	53.82	[ICRA]A (Stable)
INE836B07741	NCD programme	Jul-23	NA	Jan-25	15.00	[ICRA]A (Stable)
INE836B07766	NCD programme	Aug-23	NA	Aug-27	14.17	[ICRA]A (Stable)
INE836B07758	NCD programme	Aug-23	NA	Aug-27	26.83	[ICRA]A (Stable)
INE836B07774	NCD programme	Aug-23	NA	May-25	20.00	[ICRA]A (Stable)
INE836B07782	NCD programme	Oct-23	NA	Jan-26	50.00	[ICRA]A (Stable)
INE836B07816	NCD programme	Nov-23	NA	May-25	35.00	[ICRA]A (Stable)
INE836B07790	NCD programme	Nov-23	NA	Sep-26	100.00	[ICRA]A (Stable)
INE836B07808	NCD programme	Nov-23	NA	Mar-25	20.00	[ICRA]A (Stable)
INE836B07824	NCD programme	Dec-23	NA	Dec-28	45.65	[ICRA]A (Stable)
INE836B07832	NCD programme	Jan-24	10.85%	Jul-2026	50.00	[ICRA]A (Stable)
INE836B07865	NCD programme	May-24	10.53%	May-29	332.00	[ICRA]A (Stable)
INE836B07840	NCD programme	Apr-24	10.60%	Oct-26	75.00	[ICRA]A (Stable)
INE836B07857	NCD programme	May-24	10.40%	Apr-27	70.00	[ICRA]A (Stable)
To be issued	NCD programme	NA	NA	NA	72.53	[ICRA]A (Stable)
To be issued	NCD programme	NA	NA	NA	200.00^	[ICRA]A (Stable)
To be issued	NCD programme	NA	NA	NA	500.00	[ICRA]A (Stable)
NA	LT/ST fund-based bank facilities	Jun-18 to Nov-23	9.95% to 12.5%	Jul-23 to Jul-26	4,500.00	[ICRA]A (Stable)/[ICRA]A1

Source: Company; ^ Proposed public issuance; Commercial paper (CP) details as on Jun 30, 2024

[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
Satin Finserv Limited	100.00%	Full Consolidation
Satin Housing Finance Limited	100.00%	Full Consolidation

Source: SCNL

ANALYST CONTACTS

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

A M Karthik
+91 44 4596 4308
a.karthik@icraindia.com

Prateek Mittal
+91 33 7150 1100
prateek.mittal@icraindia.com

Jatin Arora
+91 124 4545 864
jatin.arora@icraindia.com

Arpit Agarwal
+91 124 4545 873
arpit.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

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches