December 24, 2024

Satin Finserv Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term bank facilities (others)	80.0	80.0	[ICRA]A- (Stable); reaffirmed
NCD programme	120.0	120.0	[ICRA]A- (Stable); reaffirmed
Total	**200.0**	**200.0**	

**Instrument details are provided in Annexure I*

Rationale

The rating factors in Satin Finserv Limited's (SFL) adequate capitalisation profile with a capital-to-risk weighted assets ratio (CRAR) of 41.2% and a managed gearing[1] of 1.8 times as on September 30, 2024. The rating continues to consider the strength enjoyed by SFL as a wholly-owned subsidiary of Satin Creditcare Network Limited (SCNL; rated [ICRA]A (Stable)/[ICRA]A1). While SCNL's management's involvement in SFL is limited, it benefits from board-level guidance in the form of common directors, including Mr. H P Singh (promotor of SCNL). ICRA expects that SCNL will continue to support SFL's growth plans in the form of board-level guidance and funding (debt and equity), as and when required.

The rating is, however, constrained by SFL's moderate scale of operations, asset quality and earnings. The company reported assets under management (AUM) of Rs. 435 crore (Rs. 396 crore of on-book portfolio) as on September 30, 2024 (Rs. 501 crore and Rs. 326 crore, respectively, as of March 2024). ICRA expects a gradual improvement in the scale along with the winding up of the business correspondent (BC) operations. ICRA also notes that SFL shall need to diversify its funding relations to support its growth plans. As on September 30, 2024, the funding profile comprised loans from non-banking financial companies (NBFCs; ~42%), non-convertible debentures (NCDs; ~27%), banks (~12%), BC (~12%) and securitisation (~8%).

SFL's reported gross non-performing assets (GNPAs) stood at 4.8% as on September 30, 2024 vis-à-vis 4.3% as on March 31, 2024. Since the underlying borrower segment remains vulnerable to income shocks, the company's ability to engage with customers, enhance its systems and controls continuously and improve the asset quality remains important. Further, the earnings profile remains subdued, characterised by elevated operating expenses (opex) because of lower operational efficiency.

The Stable outlook on the long-term rating reflects ICRA's opinion that SFL will be able to maintain a steady credit profile and adequate capitalisation, while expanding its scale of operations, with continued support from the parent in the form of equity and debt funding.

Key rating drivers and their description

Credit strengths

Credit profile supported by parentage – The company benefits from board-level guidance from its parent – SCNL. Further, it receives financial support in the form of capital infusions from SCNL along with debt funding lines. ICRA takes comfort that SCNL does not intend to reduce its stake in SFL in the near-to-medium term and is expected to continue supporting the

[1] Managed gearing = (On-book debt + Off-book portfolio)/Net worth

company by way of board-level guidance and funding. Further, SFL can potentially leverage SCNL's fairly diversified lending relationships to support its growth plans.

Adequate capitalisation – SFL's capitalisation remains adequate with a CRAR of 41.2% as on September 30, 2024 (48.0% as on March 31, 2024). The company's managed gearing remained low at 1.8 times as on September 30, 2024, down from 2.4 times as of March 2024 due to the decline in the AUM in H1 FY2025. ICRA expects SFL to remain adequately capitalised as it scales up its operations along with the likelihood of support from SCNL. SCNL had last infused equity capital of Rs. 40 crore in SFL in FY2024 and is expected to continue providing capital support as and when required.

Credit challenges

Moderate scale of operations – Operating since March 2019, the company's scale remains moderate with an AUM of Rs. 435 crore as on September 30, 2024 (Rs. 501 crore as of March 2024). SFL's AUM decreased in H1 FY2025 due to the decline in the BC portfolio, which was acquired under the merger with SCNL's erstwhile subsidiary, Taraashna Financial Services Limited (Taraashna), in March 2023. ICRA notes that the company's on-book portfolio increased to Rs. 396 crore as of September 2024 from Rs. 326 crore as of March 2024 and expects the trend to continue.

Moderate asset quality and relatively vulnerable borrower profile – SFL's asset quality remains moderate with gross NPAs of 4.8% as on September 30, 2024 (4.3% as on March 31, 2024). Since the underlying borrower segment remains vulnerable to income shocks, the company's ability to engage with customers, enhance its systems and controls continuously and improve the asset quality remains important. However, ICRA notes that SFL's retail customers have a credit history and track record of at least two cycles with SCNL.

Additionally, the company has a wholesale lending book (~8% of AUM as of September 2024), which is partially unsecured with relatively higher ticket size loans; thus, its performance remains a monitorable. Nonetheless, the wholesale borrowers have an established track record with SCNL and/or SFL, which provides comfort to some extent.

Subdued earnings profile – SFL's profitability profile remains subdued on account of high opex. Opex, with respect to average managed assets, stood at 11.0% (annualised) in H1 FY2025 against 11.8% in FY2024. SFL reported a profit after tax (PAT) of Rs. 3.4 crore in H1 FY2025 (provisional), translating into an annualised return on average managed assets (RoMA) of 1.1% (annualised) and a return on average net worth (RoNW) of 3.7% compared to Rs. 5.1 crore, 0.7% and 3.2%, respectively, in FY2024. ICRA notes that the management has taken steps to improve the operational efficiency while further scaling up operations, though the materialisation of the same remains to be seen.

Liquidity position: Adequate

SFL's liquidity profile remains adequate with on-book liquidity of Rs. 35 crore as on September 30, 2024, as per its provisional asset-liability management (ALM) statement. Apart from this, it had sanctioned but unutilised funding lines of ~Rs. 60 crore (including Rs. 30 crore from SCNL). These, along with scheduled collections of Rs. 140 crore, are sufficient to meet the scheduled debt obligations of Rs. 133 over the 12-month period of October 2024 to September 2025. ICRA expects support from SCNL to be forthcoming if required.

Rating sensitivities

Positive factors – A healthy growth in SFL's scale of operations along with an improvement in its asset quality and profitability, while maintaining a prudent capitalisation profile, could positively impact the rating. Also, an improvement in SCNL's credit profile could positively impact the rating.

Negative factors – A material change in the expected support from SCNL and/or a deterioration in the parent's credit profile could negatively impact the rating. Further, pressure on the rating could arise on a sustained deterioration in the scale and/or asset quality, thereby weakening the profitability profile, or a material weakening of the capitalisation profile.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Non-banking Finance Companies
Parent/Group support	The rating factors in the high likelihood of support from SCNL (parent company), given the shared brand name, and the operational and financial support already being extended to SFL.
Consolidation/Standalone	Standalone

About the company

SFL is an NBFC and a wholly-owned subsidiary of SCNL. It offers micro, small and medium enterprise (MSME) loans (retail and wholesale). It had operations in 11 states as on September 30, 2024 and reported an AUM of Rs. 435 crore. On a standalone basis, it reported a net profit of Rs. 3.4 crore in H1 FY2025 against Rs. 5.1 crore in FY2024.

SCNL is an NBFC-microfinance institution (NBFC-MFI), primarily offering joint liability group (JLG) loans to women. It had 1,463 branches spreads across 29 States/Union Territories, on a consolidated basis, as on September 30, 2024. Apart from SFL, SCNL has two wholly-owned subsidiaries – Satin Housing Finance Limited and Satin Technologies Limited.

Key financial indicators (audited)

Satin Finserv Limited	FY2023	FY2024	H1 FY2025^
Total income	107	121	59
PAT	6	5	3
Total managed assets	791	643	549
Return on managed assets	0.7%	0.7%	1.1%
Managed gearing	4.5x	2.4x	1.8x
Gross NPA	4.6%	4.3%	4.8%
CRAR	46.6%	48.0%	41.2%

Source: Company, ICRA Research; All ratios as per ICRA's calculations and estimates; Amount in Rs. crore; ^ Limited review financials for H1 FY2025

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years							
				FY2025		FY2024		FY2023		FY2022	
	Type	Amount rated (Rs. crore)	24-Dec-2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Bank facilities	Long term	80.00	[ICRA]A- (Stable)	28-Aug-24	[ICRA]A- (Stable)	27-Dec-23	[ICRA]A- (Stable)	-	-	-	-
						8-Jan-24	[ICRA]A- (Stable)	-	-	-	-

NCD programme	Long term	120.00	[ICRA]A-(Stable)	28-Aug-24	[ICRA]A-(Stable)	8-Jan-24	[ICRA]A-(Stable)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term bank facilities (others)	Simple
NCD 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
Not issued yet	**NCD programme**	NA	NA	NA	30.01	[ICRA]A- (Stable)
INE03K307058	**NCD programme**	Sep-20-2024	10.80%	Sep-20-2026	25.00	[ICRA]A- (Stable)
INE03K307041	**NCD programme**	Aug-30-2024	10.80%	Aug-30-2024	19.99	[ICRA]A- (Stable)
INE03K307033	**NCD programme**	Jun-28-2024	10.85%	Jun-28-2026	25.00	[ICRA]A- (Stable)
INE03K307025	**NCD programme**	Mar-04-2024	10.85%	Sep-04-2025	20.00	[ICRA]A- (Stable)
NA	**Long-term bank facilities (others)**	Sep-2017 to Feb-2024	NA	NA	80.00	[ICRA]A- (Stable)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Not applicable

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

Arti Verma
+91 124 4545 313
arti.verma@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

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

Registered Office

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

Branches