Satin Housing Finance Limited

December 02, 2019

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Proposed Subordinated Debt issue	20 (Rs. Twenty crore only)	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Assigned**

Details of instrument in Annexure-1

Detailed Rationale & Key Rating Drivers

Satin Housing Finance Limited (SHFL) incorporated in April, 2017 is a wholly owned subsidiary of Satin Creditcare Network Limited (SCNL, rated: CARE A-; Stable, CARE BBB+ [RPS]; Stable, CARE A1) and draws comfort from the strong promoters in SCNL having long track record of operations and strong investor base. The rating of SHFL is also supported by the comfortable capitalization levels backed by regular capital infusion by SCNL, good asset quality, underwriting systems and processes and comfortable liquidity position. SHFL's profile is however constrained by the short track record of operations, small albeit growing loan book, loss making operations due to lack of scale and growing operations, unseasoned loan with exposure to vulnerable borrower segment.

The ability of the company to maintain comfortable capital structure and gearing levels, improve its asset quality, limit the credit losses and maintain consistent profitability while geographically diversifying and increasing its scale of operations are key rating sensitivities.

Rating Sensitivities

Positive Factors

- Raise funding from diverse sources at competitive costs
- Scale up the loan book to Rs.400 crore
- Sustained profitability with ROTA of atleast 2%
- Sustain asset quality with GNPA at less than 1% with seasoning of the loan portfolio
- Regular equity infusion by SCNL with gearing levels at < 4 times on a sustained basis

Negative Factors

- Sharp deterioration in asset quality with GNPA > 2.5% resulting in increased credit costs
- Inability to scale up the operations and continued losses

Detailed description of the key rating drivers

Key Rating Strengths

Strong Promoters having long track record of operations and strong investor base

SHFL is a wholly owned subsidiary of Satin Creditcare Network Limited Ltd (SCNL). SCNL has been carrying out lending activities since 1990 and ventured into microfinance lending in 2008 and is the second largest NBFC-MFI in the country in terms of AUM. The operations of the group are headed by the promoter, Mr H P Singh, Chairman and Managing Director of SCNL who is supported by a management team having rich experience in the financial services and microfinance sector. End September, 2019, the promoters together held 29.70% stake in the company. Additionally, SCNL has a diversified investor base consisting of mutual funds and Foreign Portfolio Investors/Financial Institutions viz. Asian Development Bank, Kora Investments, NMI Fund, SBI FMO Emerging Asia Financial Sector Fund Pte Ltd, Morgan Stanley Mauritius Company Ltd, Morgan Stanley (Investments) Mauritius Ltd, IndusInd Bank and IDFC First Bank.

SCNL started housing finance business through its wholly owned subsidiary SHFL in February 2018. SHFL benefits from name sharing and strong financial and management backing from its parent. While the operations of SHFL are managed by a separate management team with experience in financial services and housing finance business, SHFL is expected to receive strong management support from SCNL. Mr H P Singh, MD and Chairman of SCNL also serves on the Board of SHFL. The company has empaneled two other board of directors who also serve on the board of SCNL. SHFL is headed by Mr. Amit Sharma, Chief Executive Officer and also the Whole-time Director, who has over 18 years' experience in lending business.

Comfortable capitalisation levels for current scale, however the company will need consistent capital raising to scale up its operations

SCNL has regularly infused equity in SHFL with aggregate infusion of Rs.80 crore in SHFL upto September 30, 2019 (including Rs.30 crore in Q1FY20). Given its small book size, the capitalisation levels of SHFL remain comfortable with Tier-I CAR and

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

total CAR at 129.75% and 130.60% respectively and gearing of 0.88 times as on September 30, 2019. In the near to medium term, SHFL is expected to receive additional capital from parent, as and when required to scale operations. The gearing is expected to remain at around 2-3 times over the medium term.

Growth potential in the affordable housing space and potential to leverage the large branch network and customer base of parent (SCNL) for cross selling
Housing sector has been on a high growth path propelled by government's focus on 'Housing for All by 2022'. There is healthy growth expected in the low ticket housing finance segment given the low penetration in this segment (untapped market) and increasing focus on the affordable housing segment including the support of government programs through credit linked subsidy schemes, Infra status to affordable housing companies to push more developers to enter the sector and Lower risk-weights and higher LTV for low ticket loans to boost disbursements.

As on September 30, 2019, Satin Creditcare had a large network of 1,073 branches with wide geographical presence across 359 districts in 22 states with more than 32.7 Lakhs active borrowers (including BC operations for microfinance lending for IndusInd Bank). Most of the borrowers of SCNL are based in rural and semi-urban areas. Going forward, SHFL's management intends to leverage upon the large customer base of SCNL to cross sell small ticket size business loans (LAP) and micro housing loans to the mature borrowers (more than 2 loan cycles) of MFI of Rs.1-4 lacs to this segment.

Key Rating Weaknesses
Short track record of operations
SHFL is a housing finance company focused on providing affordable/ micro housing loans and Loans against property / micro LAP to low-medium income individuals. SHFL's objective is to cater to affordable housing segment where access to formal credit is not much due to lack of documentary evidence of income, occupation, identity and address proof and awareness. The loans are given for purpose of home purchase, construction, renovation, extension, improvement. It caters mainly to the salaried and self-employed segment. Currently, SHFL sources its business in Delhi/NCR, Uttar Pradesh and Rajasthan region. The company commenced lending operations in February 2018. As on September 30, 2019, SHFL has 976 loans outstanding with a loan book of Rs.115.73 crores with average ticket size Rs.11.85 Lacs.

Loss making operations due to lack of scale
SHFL had reported losses of Rs.1.23 crore during FY19 and Rs.0.77 crore during H1FY20 as the company is still in the growth stages of operations having commenced operations in Feb-18. Given the small scale of operations, the average Opex/ATA was high at 14.76% during FY19 resulting in ROTA of -2.53% during FY19. SHFL earns a spread of 1.6-1.8% on its loans which due to lower leverage translated into NIM of 6.4% in H1FY20. Opex / ATA declined to 10.85% in H1FY20 with the scale up of loan book resulting in ROTA improving to -1.35%. So far the credit costs are also low given Nil NPA as on Sept-19. SHFL intends to turn profitable by FY20 on the back of growth in loan book, rationalization of expenses, improved in interest spreads with increase in share of higher yield micro housing and lap book.

Largely unseasoned portfolio and relatively modest borrower profile vs. mainline HFCs partially offset by assessed income based lending; secured nature of loan book reduces risk to some extent
As the company recently started housing finance business in February 2018, the portfolio remains largely unseasoned and the track record of asset quality remains to be seen across economic cycles given the longer tenured loan products and the inherent vulnerability in the credit profile of target borrower segment. The company had nil Gross and Net NPA ratio as of September 30, 2019. There was however increase in delinquencies with 5 loans aggregating Rs. 0.63 crore slipping into 1-30 DPD as on Sept-19 (PAR 1 being 0.54% as on Sept-19).

SHFL's borrower profile is relatively weaker vs. mainline HFCs as it focuses on lower to middle income group of customers in the predominantly self-employed and informal income borrower segment. The company has well defined credit appraisal, underwriting and risk management policies in place and has put up systemic collection mechanisms to ensure detection of early delinquency cases. For next few quarters, SHFL aims to keep its credit/underwriting operations centralized with loan sanctions to be done out of the head office at Gurgaon. However, in the medium term as the operations in the new regions stabilize, SHFL will evaluate and take decision regarding decentralization of authority.

SHFL's portfolio as on Sept-19 comprised primarily housing loans (89% of the loan book) and balance 11% being LAP book. Most of the loans (~81%) pertain to the affordable housing segment. The economically vulnerable self-employed customers constituted half of the book, while the remaining half is salaried workers. The company however doesn't have any exposure to builders as on Sept-19. Average FOIR (Fixed Obligation to income ratio) of the portfolio as on Sept 30, 2019 stood at 43.06% with average LTV of the portfolio being 55.28%.

Yet to raise longer tenure funding from diversified sources
SHFL is yet to raise substantial borrowings on its books. So far loans of Rs.87.50 crore have been sanctioned to SHFL with outstanding amount as on Sept-19 being Rs.66.45 crore and borrowing cost ranging from 12.25-13.74% (average borrowing cost being 12.78%). SHFL had also secured a Rs.5 crore line from NHB in August 2019 which it is yet to avail.

Liquidity: Adequate
The liquidity position of SHFL, is comfortable given the largely equity funded book and low overall borrowings. There are intrinsic mismatches in inflow and outflows for SHFL given the longer tenure of its assets upto 20 years and shorter tenure of its borrowings of upto 5 years. However, there were no negative cumulative mismatches upto 1 year maturity buckets in company's asset liability maturity profile as on Sept-19. SHFL's liquidity is supported by cash and bank balance of ~Rs.29.02 crore as on September 30, 2019. SHFL also had unutilized lines of credit aggregating Rs.15 crore as on September-19 (incl. Rs 9 crore term loan by SCNL) which support the liquidity profile of SHFL.

SHFL's standalone liquidity profile will however depend on its ability to raise long tenure borrowings from diversified sources given its presence in housing finance which is long tenure loans.

Analytical approach: Standalone; factoring in support from the parent entity SCNL.

Applicable Criteria
Criteria on assigning Outlook and Credit watch to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Factoring Linkages in Ratings
Financial ratios – Financial Sector
Rating Methodology for Housing Finance Companies

About the Company
Incorporated in April 2017, Satin Housing Finance Limited is a wholly owned subsidiary of Satin Creditcare Network Limited (SCNL). SHFL obtained license to commence operations i.e. November 14, 2017 upon receipt of certificate of registration from NHB to operate as a non-deposit accepting HFC and commenced lending operations in February 2018. SHFL currently operates through its Head Office at Gurgaon and currently sources its business in Delhi/NCR, Haryana, UP and Rajasthan. SHFL is currently focused on providing affordable housing finance for construction, purchase, repair and upgradation of houses and mortgage business loans to individuals in the lower and middle income segment consisting of salaried and self-employed individuals. End September 2019, SHFL's loan portfolio stood at ~Rs.115.73 crore which comprised primarily housing loans (89% of the loan book) and balance 11% being LAP book.
Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	0.69	7.08
PAT	-0.47	-1.23
Interest coverage (times)	NM	-0.37
Total Assets	14.40	82.79
Net NPA (%)	0	0
ROTA (%)	-6.53	-2.53

A: Audited; NM: Not Meaningful

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rated Amt (Rs. Cr)	Rating assigned along with Rating Outlook
Subordinated Debt (Proposed)	-	-	14.0% per annum	31st December 2026	20.00	20.00	CARE BBB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	13.73	CARE BBB+ (CE); Stable	CARE BBB+ (CE); Stable (09-Sep-19)	1)CARE BBB+ (SO); Stable (30-Nov-18)	-	-
2.	Fund-based - LT-Term Loan	LT	36.27	Provisional CARE BBB+ (CE); Stable	Provisional CARE BBB+ (CE); Stable (09-Sep-19)	1)Provisional CARE BBB+ (SO); Stable (30-Nov-18)	-	-
3.	Un Supported Rating	LT	0.00	CARE BBB; Stable	CARE BBB; Stable (09-Sep-19)	-	-	-
4.	Debt – Subordinated Debt	LT	20.00	CARE BBB; Stable				

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	The company shall: - maintain the ratio of A:B to less than 10%, where A is the difference between (i) Portfolio At Risk and (ii) loan loss provisions, and B is the Equity - maintain capital adequacy ratio calculated according with the capital adequacy standards as established by the RBI - maintain a PAR Ratio Over 90 Days of not greater than 3% which shall be tested at the end of each calendar month - maintain a Write Off Ratio not greater than 2% (Two percent) of Outstanding Portfolio which shall be tested at the end of each calendar month - maintain outstanding value of subordinated debts not exceeding 50% of net-worth - maintain debt-equity ratio not exceeding 7x - maintain the aggregate Unhedged Open Foreign Currency Ratio at no more than 20%
B. Non financial covenants	In case of early redemption of the Debentures at the instance of the Issuer, on any date other than the Due Date and not arising due to an Event of Default, the Company shall pay a penalty of 2% on the principal amount repaid

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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