Satin Housing Finance Limited

September 09, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	13.73 (reduced from 15.00)^	CARE BBB+ (CE); Stable[#] [Triple B Plus (Credit Enhancement); Outlook: Stable]	Reaffirmed
Long-term Bank Facilities (Proposed)	36.27 (Enhanced from 35.00)[@]	Provisional CARE BBB+ (CE); Stable[@] [Provisional Triple B Plus (Credit Enhancement); Outlook: Stable]	Reaffirmed
Total facilities	**50.00 (Rs. Fifty crore only)**		

Details of facilities in Annexure-1

[#]Based on credit enhancement (Letter of Comfort) issued by Satin Creditcare Network Limited (SCNL)

[@]Based on the proposed credit enhancement in the form of Letter of Comfort to be provided by SCNL

Unsupported Rating[2]	**CARE BBB; Stable (Triple B; Outlook: Stable)**

Detailed Rationale & Key Rating Drivers

The rating on the bank facilities of Satin Housing Finance Ltd (SHFL), wholly owned subsidiary of Satin Creditcare Network Limited (SCNL; rated CARE A-; Stable, BBB+ [RPS]; Stable/CARE A1) are supported by the credit enhancement in the form of existing/proposed Letter of Comfort by its parent.

Satin Housing Finance Limited (SHFL) incorporated in April, 2017 is a wholly owned subsidiary of Satin Creditcare Network Limited (SCNL) and draws comfort from the strong promoters in SCNL having long track record of operations and strong investor base. The standalone profile 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 ratings of bank facilities / instruments of the parent company SCNL continue to draw comfort from the long-standing experience of the promoter, demonstrated ability to raise capital, company's stated intent to maintain adequate capitalization levels that are well above the regulatory requirement, diversified resource base and comfortable liquidity position. The ratings also take into consideration SCNL's established track record of operations, strong risk management systems which allow real time monitoring of operations. The ratings also factor in resilient growth in assets under management (AUM) and profitable operations in FY19 following only marginal profits in FY18, restoration of asset quality post demonetization to a large extent and reduction in geographical concentration risk with expansion into new territories/regions.

The ratings on SCNL however, are constrained by higher slippages from disbursements immediately post demonetization resulting in GNPA / Stage 3 assets to AUM at 2.90% as on Mar-19 and reduction in ECL provisioning against the same to 39% as on Mar-19 as against 62% as on Mar-18, increase in first cycle loans in the overall loan book following expansion into new territories as against the traditional Hindi speaking belt where SCNL has long standing experience of operations. Also, concentration in Uttar Pradesh (single largest state and region most impacted post demonetization) was 23.5% as on Mar-19. The ratings of SCNL also continue to account for the inherent risk involved in the microfinance industry including unsecured lending; cash based operations, marginal profile of borrowers, socio-political intervention risk and regulatory uncertainty. Also, the company's ability to maintain high collection efficiency will be a key monitorable.

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.

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

[2] *As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019*

Detailed Rationale & Key Rating Drivers
For Satin Housing Finance Limited-
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 June, 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. 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, also serves as the MD & Chairman of SHFL and the company has empaneled two other board of directors Mr. Sundeep Kumar Mehta and Mr. Anil Kalra 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.

Credit enhancement in the form of letter of comfort from Satin Creditcare network Limited
SCNL has shown commitment towards SHPL's operations in the form of Letter of Comfort for honouring of debt obligations of Satin Housing Finance Limited on due date. The LOC, though irrevocable, valid and binding on SCNL cannot be constructed as a guarantee and has no legal binding on the parent to make good of the liabilities. However, given the written articulation of support coupled with name sharing, strong financial and management backing from the parent, there is a strong moral obligation on SCNL to honour the terms of LoC**.** Of the total borrowings of SHFL as on June 30, 2019, 25% are backed by letter of comfort, 2% funded by SCNL while balance being standalone borrowings. The rated facilities are backed by LOC / proposed LOC from SCNL.

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 June 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 total CAR at 125.92% and 126.6% respectively and gearing of 0.67 times as on June 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.

End fiscal 2019, Satin Creditcare had a large network of 977 branches with wide geographical presence across 340 districts in 22 states with more than 31.5 Lakhs active borrowers (including BC operations for microfinance lending under Taraashna, a subsidiary of SCNL). 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 and Rajasthan region. The company

commenced lending operations in February 2018. As on June 30, 2019, the company's workforce comprises 106 employees. SHFL has 829 loans outstanding with a loan book of Rs.101 crore as on June 30, 2019 with average ticket size Rs.13.5 Lacs.

Loss making operations due to lack of scale

SHFL had reported losses of Rs.1.23 crore during FY19 and Rs.0.59 crore during Q1FY20 as against loss of Rs.0.47 crore during FY18 as the company is still in the growth stages of operations having commenced operations in Feb-18. SHFL earned a spread of 1.6-1.85% (Avg. Yield of 14.35% till Mar-19 as against cost of borrowing of 12.5-12.75%), however, given the small scale of operations, the average Opex/ATA was high at 14.76% during FY19 results in ROTA of -2.53% during FY19. 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 June 30, 2019. There were no delinquencies as on June-19. However, 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 June-19 comprised primarily housing loans (88% of the loan book) and balance 12% being LAP book. Most of the loans pertain to affordable segment (77% of the loans being less than Rs.30 lacs). Average FOIR (Fixed Obligation to income ratio) of the portfolio as on June 30, 2019 stood at 42.33% with average LTV of the portfolio being 56.04%. 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 June-19.

Yet to raise longer tenure funding from diversified sources

SHFL is yet to raise substantial borrowings on its books. So far loans of Rs.70 crore have been sanctioned to SHFL with outstanding amount as on June-19 being Rs.51.7 crore and borrowing cost ranging from 12.25-12.75%. SHFL has however managed secured Rs.5 crore line from NHB in Aug 2019.

Industry Prospects

Continuation of prevailing tight liquidity scenario in the credit market may impact the overall growth of the sector. The slowdown in the real estate market coupled with elevated refinancing risk for the developers is expected to impact the asset quality of players in the sector. Further, increase in the cost of funds and delinquencies would impact their profitability margins. However, the continuation of long-term trend of robust asset quality of home loans, except for some players who are in the affordable housing segment, is a key positive for the sector. Thus, adoption of strict underwriting standards by the Small and Mid HFCs and their ability to diversify into newer geographies while maintaining asset quality will be the key differentiating factor for individual entities.

Going ahead, the transmission of increasing funding costs to the borrower base is a key monitorable in the highly competitive scenario. Such a development could lead to high prepayments and compel players to reduce the proportion of prime borrower segment, to compensate for the reduction in margin.

Liquidity position

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 3 years maturity buckets in company's asset liability maturity profile as on June-19. SHFL's liquidity is supported by cash and bank balance and investments of ~Rs.27.82 crore as on June 30, 2019. SHFL also had unutilized lines of credit aggregating Rs.15 crore as on June-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: The ratings are based on the existing/proposed credit enhancement in the form of Letter of Comfort form from parent company; i.e. Satin Creditcare Network Limited to support its debt servicing

Applicable criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Factoring Linkages in Ratings
Financial ratios – Financial Sector

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 June 2019, SHFL's loan portfolio stood at ~Rs.101 crore which comprised primarily housing loans (88% of the loan book) and balance 12% being LAP book.

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

About Satin Creditcare Network Limited (entity providing credit enhancement)
SCNL is a leading microfinance company based out of Delhi. The company is registered with Reserve Bank of India (RBI) as a non-deposit accepting, systemically important non-banking financial company (NBFC) and had been granted NBFC-MFI status on November 6, 2013, by RBI. SCNL is also listed on the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE).

Incorporated in 1990, the company was initially engaged in providing loans to individuals including shopkeepers etc. in the urban areas. In 2008, the company started group lending business with joint liability group (JLG) model which constituted 96% of the portfolio of SCNL as on March 31, 2019 with MSME loans constituting the balance 4% of AUM as on Mar-19. MSME Loans include unsecured loans of ticket size of Rs.1-10 Lacs for a period of 1-10 years and corporate loans to other MFIs of Rs.3-10 crore.

The operations of SCNL are spread across 22 states/ UTs i.e. Uttar Pradesh, Madhya Pradesh, Bihar, Punjab, Delhi/ NCR, Uttarakhand, Rajasthan, Haryana, Chandigarh, Jammu & Kashmir, Maharashtra, Chhattisgarh, Jharkhand, Himachal Pradesh, West Bengal, Gujarat, Orissa, Assam, Karnataka, Meghalaya, Tripura and Pondichery. As on Mar 31, 2019, SCNL was operating in 340 districts managed through 977 branches with 31.5 Lac active borrowers (Individual & JLG) with total assets under management (AUM) being Rs.6,374 crores (including BC book for IndusInd of Rs.633 crore and assigned portfolio of Rs.1,281 crore).

SCNL also has a subsidiary Taraashna Services Limited ("TSL") acquired in Sept 2016 which acts as a business correspondent for 4 Banks/FIs. The company has spread its presence in 8 states (Rajasthan, Gujarat, Maharashtra, Madhya Pradesh, Chattisgarh, Bihar, Punjab and UP) with 180 branches Mar 31, 2019. TSL reported a turnover of Rs.68.30 crores and net profit of Rs.8.4 crore during FY19 with AUM of Rs.604 crores as on March 31, 2019.

Further, SCNL, has floated a wholly-owned Housing Finance Company for entry into affordable housing segment, Satin Housing Finance Limited (incorporated in April 2017) which started lending in February 2018 upon receipt of approval from NHB. The loan book of HFC was Rs.79 crore as on March 31, 2019. SCNL has also floated another subsidiary Satin Finserve Limited which will undertake lending in MSME space (loans of 1-10 lac ticket size) which was being carried under SCNL till now.

Brief Financials (Rs. crore) – *Standalone*	*2018*	*2018*	*2019*
	(12M, A)	*(12M, A)*	*(12M, A)*
	IGAAP	*INDAS*	*INDAS*
Total Operating Income	977	976	1,373
PAT	4	82	195
Interest coverage (times)	1.01	1.32	1.57
Assets under Management	5,085	5,085	6,374
Total Assets	5753	6,171	6,674
Net NPA Ratio / Net PAR 90 Ratio (%)	2.62	1.69	1.77
Adj. Return on Total Assets (ROTA)*	0.07	1.45	2.64

Note: A: Audited
**Ratios have been computed based on average of annual opening and closing balances*
***Adj. ratios computed based on incl. of securitized/assigned/BC portfolio*

For detailed rating rationale of Satin Creditcare Network Limited, please refer to CARE's Press Release dated July 05, 2019 on our website.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applipcable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Nov 2022	13.73	CARE BBB+ (CE); Stable
Fund-based - LT-Term Loan	-	-	-	36.27	Provisional CARE BBB+ (CE); Stable
Un Supported Rating	-	-	-	0.00	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	-	1)CARE BBB+ (SO); Stable (30-Nov-18)	-	-
2.	Fund-based - LT-Term Loan	LT	36.27	Provisional CARE BBB+ (CE); Stable	-	1)Provisional CARE BBB+ (SO); Stable (30-Nov-18)	-	-
3.	Un Supported Rating	LT	0.00	CARE BBB; Stable	-	-	-	-

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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