Satin Housing Finance Limited

April 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	126.15	CARE BBB+; Stable	Revised from CARE BBB; Stable
Long-term instruments	20.00	CARE BBB+; Stable	Revised from CARE BBB; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has based its assessment on combined view of Satin Creditcare Network Limited (SCNL, rated CARE BBB+ Stable) and its wholly-owned subsidiaries – Satin Housing Finance Limited (SHFL), Satin Finserv Limited (SFL, rated CARE BBB+ Stable) and Taraashna Financial Services Limited (merged with SFL effective March 01, 2023) considering these are closely held entities with significant ownership, control and management by common promoters.

The ratings continue to be supported by the extensive experience of the promoters, adequate capitalisation level, the diversified resource profile, and the comfortable liquidity. The ratings also reflect the established track record of operations, as SCNL has been a lender under the joint liability group (JLG) model since 2008 and is one of the largest microfinance lenders in India.

However, the ratings are constrained by moderate profitability levels, stressed asset quality and increasing concentration of top 20 customers to portfolio. SCNL incurred credit costs of ₹394.8 crore , owing to significant write-offs, leading to net loss of ₹93.8 crore on consolidated basis in 9MFY23. The write-off was primarily incurred in standalone operations of SCNL. Post write-offs, the stressed book of standalone SCNL (covering non-performing assets [NPAs], standard restructured book and security receipts) stood at 7.94% as of December 31, 2022. Increase in the exposure to 20 largest borrowers/customers in standalone SCNL to ₹300.6 crore (5.7% of the total exposure) as on March 31, 2022, from ₹199.8 crore (3.5%) as year earlier further adds to the asset quality risk.

The ratings of SCNL also continue to account for the inherent risk involved in the microfinance industry, including unsecured lending, cash-based operations, and socio-political intervention risk. The ability of the company to improve its asset quality and limit the credit losses while maintaining a comfortable capital structure and gearing levels, and to grow its portfolio and maintain consistent profitability are the key rating sensitivities.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Significant growth in the loan book while maintaining asset quality.
- Improvement in the profitability indicators, with adjusted return on total assets (ROTA) being 2.5% on a sustained basis.
- Maintain adequate capitalisation levels well above the regulatory requirement of 15% while maintaining net adjusted gearing at less than 4x on a sustained basis.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in asset quality from the current level or significant increase in credit costs
- Increase in the adjusted net gearing levels beyond 6x on a sustained basis.
- Decline in cash surplus and liquidity buffers beyond a threshold, which can impact the risk absorption ability.

Analytical approach:

Combined rating for SCNL and its wholly owned subsidiaries - SHFL, SFL and TFSL, considering that these are closely-held entities with significant ownership, control and management by common promoters. The funding support by parent to subsidiaries, in the form of loans and guarantees on external borrowings availed by subsidiaries, also supports the combined view approach.

Outlook: Stable

The outlook reflects expectations that the company will continue to grow its loan book while improving profitability over the medium term driven by controlling the credit cost. The outlook also reflects the expectation that the company will be able to raise equity and borrowing at competitive costs.

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[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers:

Key strengths

Established track record, with experienced promoter and management:
Based out of Gurugram, SCNL is one of the leading non-banking financial company-microfinance institutions (NBFC-MFI) that has been carrying out individual lending activities since 1990 until 2008. The company forayed into JLG lending in 2008 and has gained reasonable experience in the group lending business, emerging as one of the largest NBFC-MFIs in the country in terms of assets under management (AUM).

SCNL's consolidated AUM was at ₹7,945 crore as on December 31, 2022, compared to ₹7,617 as on March 31, 2022. It registered muted growth of 4.3% in 9MFY23 owing to significant write-offs of ₹563 crore during the period. However, the disbursements have picked up with average monthly disbursement of ₹627 crore in Q3FY23 compared to ₹570 core in H1FY23, reflecting expectation of increase in consolidated AUM over the medium term.

The operations of the company are headed by the promoter and chairman & managing director, HP Singh, who is supported by a management team having rich experience in the financial services and microfinance sectors. As on December 31, 2022, the promoter shareholding stood at 38.0%. Additionally, SCNL investor base consists of banks, mutual funds, and foreign portfolio investors and financial institutions, including Asian Development Bank (1.85%) NMI (1.71%), SBI Emerging Asia Financial Sector Fund Pte Ltd (2.27%), and IndusInd Bank (2.63%).

SHFL commenced its operation in 2017 and has achieved AUM grew to ₹383 crore as of December 31, 2022, compared ₹318 crore as of March 31, 2022. The portfolio consists of housing loans (63%) and loan against property (37%).

Demonstrated ability to raise equity capital and comfortable regulatory capital levels:
The capital structure of SCNL remains comfortable, owing to regular equity infusions from the promoters and other investors. The company raised ₹250 crore in October 2016 and ₹150 crore in October 2017 from qualified institutional placement (QIP). On August 12, 2020, SCNL launched its maiden rights issue of ₹120 crore, which was fully paid up by September 2021. Currently, SCNL is in the process of raising ₹225 crore through preferential issue, of which ₹137 crore has been raised since Q4FY22 till date and balance is expected to be raised by July 2023.

The capital adequacy ratio (CAR) of SCNL rebounded to 27% as of Dec-2022, similar to 27.8% as of March 31, 2022, after dipping to 22.6% as of June 30, 2022, due to write-offs. The rebound was supported by equity infusion of ₹50 crore in 9MFY23 and increased accretion to reserves as a result of higher lending rate and gain of ₹140.2 crore (standalone) on sale of loans through direct assignment.

CAR of SHFL and SFL was comfortable at 58.4% and 54.0%, respectively, as of December 31, 2022. TFSL does not have any major external borrowings other than from the parent entity.

The standalone gearing levels (measured as ratio of debt including securitised portfolio and credit enhancement (CE) for its subsidiaries to net worth reduced by deferred tax assets, intangible assets, investments in subsidiaries, and First loss default guarantee on the business correspondence portfolio) was at 4.4x levels as on March 31, 2022. Going forward, SCNL's ability to continue to raise capital to fund future loan growth remains key monitorable.

Diversified resource base supporting liquidity:
SCNL has a diversified resource base, with associations with over 58 lenders as on December 31, 2022. As on December 31, 2022, the outstanding borrowing comprised term loans & PTC (51.4%), non-convertible debentures (15.6%), external commercial borrowings (5.7%), and direct assignment (27.2%) from banks (68.7%), non-bank financial institutions (7.4%), domestic financial institutions (3.6%), overseas fund (19.8%) and domestic funds (0.5%).

SHFL's borrowings is moderately diversified with relationship with 18 lenders – primarily NBFCs (80%) as of December 2022.

Geographically diversified operations:
SCNL has spread its operations and grown its portfolio in new states and currently has a presence in 23 states & union territories, 401 districts and 1,260 branches, with a borrower base of around 27 lakh active borrowers on consolidated basis as on December 30, 2022. The company has been traditionally a north-Indian player, with presence mostly in the Hindi-speaking states, where it has a long-standing operating experience. However, post demonetisation, i.e., during FY18 and FY19, the company expanded its footprint and has grown in the eastern, north-eastern and southern states. However, the contribution of top five states to consolidated AUM continues to remain high at 61.2% as on December 30, 2022. Uttar Pradesh remains the largest state, constituting 26.5% of AUM, followed by Bihar, constituting another 14.5% as on December 31, 2022.

SHFL's portfolio is concentrated in 4 states – Uttar Pradesh (45%), Rajasthan (24%), Haryana (21%) and Delhi (10%).

Key weaknesses

Stressed asset quality:
Significant write-offs pertaining to restructured book has led to increase in credit costs to ₹394.8 crore in 9MFY23 compared to credit cost of ₹175 crore in FY22. Post write-offs, the stressed book of standalone SCNL (covering non-performing assets [NPAs], standard restructured book and security receipts) stood at 7.94% as of December 31, 2022.

Out of outstanding standard restructured book of ₹124 crore, ₹24 crore remains in 1-90 dpd. Uncertainty over extent of recovery from Assam state Government on NPAs of ₹122 crore adds to asset quality risk. The overall provision coverage ratio on NPA of ₹188 crore stood at 62% as on December 31, 2022. Increase in the exposure to 20 largest borrowers/customers to ₹300.6 crore (5.7% of the total exposure) as on March 31, 2022, from ₹199.8 crore (3.5%) as year earlier further adds to the asset quality risk.

SHFL has strong asset quality with 90+dpd of 0.48% as of December 31, 2022. SFL's 90+dpd also improved to 3.2% as of December 31, 2022, from 5.3% as of March 31, 2022, while standard restructured book was moderate at 1.2% as of December 31, 2022. However, FLDG provided by TFSL of Rs 38.5 crore against PAR90 portfolio of ₹111.24 crore as of February 28, 2023 (AUM of ₹514 crore) also adds the asset quality risk.

Moderate profitability metrics:
On a consolidated level, SCNL reported net loss of ₹93.8 crore in 9MFY23. The losses were driven by write-off of ₹563 crore: out of which ₹363 crore pertains to restructured portfolio. However, gain on sale of loans through direct assignment of ₹143.7 crore in 9MFY23, supported the profitability.

The net interest income / average total reported assets (for consolidated financials) have remained around 7.5% (annualised) in 9MFY23 similar to 7.6% for FY22; however, it is expected to improve as the lending rate has been increased by the company. The opex / average total reported assets have increased marginally to 6.8% (annualised) in 9MFY23 from 6.5% in FY22 due to lower AUM base and fixed nature of operating expenses. The increase also pertains to higher proportion of off-balance sheet portfolio. The opex ratio is expected to improve as the portfolio size increases over the medium term.

Going forward, some improvements might be seen in yields, post deregulation of the interest rate by the Reserve Bank of India (RBI). However, the ability of the company to raise funds at competitive costs and to keep its credit costs under control will remain a key determinant for its profitability profile.

SHFL has moderate profitability levels. The company achieved ROTA of 1.0% (annualised) in 9MFY23 compared to 1.1% in FY22. The profitability is constrained by high operating costs, which increased to 7.0% in 9MFY23 from 5.7% in FY22. The credit costs remain low at 0.3% for 9MFY23, inline with previous years. The net interest margin increased to 6.4% in 9MFY23 compared to 6.1% in FY22 owing to improved interest spreads and lower gearing. The other income / average total reported assets improved to 2.3% in 9MFY23 from 1.4% in FY22 owing to increase in profit on sale of loan through the direct assignment.

Liquidity: Adequate
The company has a favourable liquidity position, given the shorter tenure of loans and advances (up to two years) as against the long tenure of borrowings (two to seven years), as also reflected by a well-matched asset liability management (ALM) profile as on December 31, 2022. As on the same date, SCNL's expected inflows up to the next one-year bucket (including bank balance and liquid investments) was 1.2x of its expected outflows. However, any steep decline in the collection efficiency can impact the ratio.

The company also has an established practice of always maintaining adequate buffer in the form of free cash and bank balance and liquid investments to cushion its liquidity profile. As on December 31, 2022, SCNL had an unencumbered cash balance of ₹1,032 crore against debt obligations of ₹924 crore in the next two months.

The liquidity of SHFL and SFL is also adequate with positive ALM mismatches. Undiscounted inflows of SHFL up to the next one-year bucket (including bank balance and liquid investments) cover 1.12x of undiscounted outflows as of December 31, 2022. Inflows of SFL up to the next one-year bucket (including bank balance and liquid investments) cover 1.4x of outflows.

Environment, social, and governance (ESG) risks

SCNL continues to be impacted by the inherent risk involved of microfinance industry, viz, socio-political intervention risk and risks emanating from unsecured lending and marginal profile of borrowers who are vulnerable to economic downturns, besides operational risks related to cash-based transactions. To mitigate the social risk, SCNL maintains ground level knowledge and strong bond with its key stakeholders. It also undertakes several community level initiatives to build the social capital its areas of operations.

SCNL does not have any major environmental risks.

The governance risk is managed through well-defined organisation structure and effectively implementing internal financial controls. SCNL is governed with eight directors on its board, comprising one promoter director, five independent directors, and two non-independent directors.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Non Banking Financial Companies
Housing Finance Companies

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Housing Finance Company

Incorporated in April 2017, SHFL is a wholly-owned subsidiary of SCNL. SHFL obtained license to commence operations on November 14, 2017, upon receipt of certificate of registration from the NHB to operate as a non-deposit accepting HFC and commenced lending operations in February 2018. SHFL operates through its head office at Gurugram and currently sources its business in Delhi-NCR, Haryana, Uttar Pradesh, 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. As on December 31, 2022, SHFL's on-book loan portfolio stood at ₹383 crore, which comprised primarily affordable housing loans (63% of the loan book) and the balance 37% being LAP book. The average ticket size is ₹10.64 lakh, with a tenor of 14.26 years and average LTV of the portfolio being 55.23% as on March 31, 2022. The average yields on loans disbursed as on March 31, 2022, was 14.89%.

SCNL is a leading microfinance company based out of Gurugram. The company is registered with the RBI as a non-deposit accepting, systemically important NBFC and had been granted NBFC-MFI status by the RBI on November 6, 2013. 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 its group lending business with the JLG model, which constituted 94% of its portfolio as on December 31, 2022, with MSME loans constituting the balance AUM as on the same date. MSME include loans of a ticket size of ₹1-10 lakh for a period of 1-10 years and corporate loans to other MFIs of ₹3-10 crore.

SCNL also has three subsidiaries, viz, Taraashna Financial Services Limited (TFSL), Satin Housing Finance Limited (SHFL), and Satin Finserv Ltd (SFL). TFSL acts as a business correspondent for banks/financial institutions (FIs). The company has spread its presence in six states with 157 branches and AUM of ₹563 crore as on December 31, 2022. It got merged into SFL effective March 01, 2023. SFL is the newest subsidiary of the group, which commenced operations in March 2019 to foray into the MSME segment. The AUM of SFL as on December 31, 2022, was ₹200 crore.

Brief Financials of SCNL Consolidated* (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	1,380.2	1,381.0	1,121.6
PAT	-14.0	20.7	-93.8
Interest coverage (times)	1.0	1.1	0.7
Total reported assets	8,044.7	7,655.3	7,839.7
Net NPA (%)	NA	NA	NA
ROTA (%)	-0.2%	0.3%	-1.6%

Brief Financials of SCNL Standalone* (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	1,276.9	1,261.9	1364.4
PAT	-13.6	40.2	169.9#
Interest coverage (times)	1.0	1.1	1.5
Total reported assets	7874.5	7,375.4	7,761.0
Net NPA (%)	4.8	2.4	1.5
Return on average total reported assets (%)	-0.2	0.5	3.0

Brief Financials of SHFL* (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
TOI	29.6	38.0	42.4
PAT	1.4	3.0	2.6
Interest coverage (times)	1.2	1.3	1.2
Total reported assets	236.3	315.5	362.8
Net NPA (%)	0.0	0.0	0.4
Return on average total reported assets (%)	0.7	1.1	1.0

Brief Financials of SFL* (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
TOI	24.8	27.6	29.8
PAT	4.8	1.8	3.5
Interest coverage (times)	2.43	1.39	1.58
Total reported assets	141.3	187.3	220.6
Net NPA (%)	0.89	3.32	3.0
Return on average total reported assets (%)	3.5	1.1	2.3

A: Audited; UA: Unaudited; *CARE Ratings' adjusted financials, #Includes net gain on fair value changes of ₹364.87 crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	31-12-2022*	8.85	CARE BBB+; Stable
Subordinate Debt	INE02YC08016	17-Dec-2019	14%	31-Dec-2026	20.00	CARE BBB+; Stable
Term Loan-Long Term		-	-	31-03-2029	117.30	CARE BBB+; Stable

*Pending documents for withdrawal

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	8.85	CARE BBB+; Stable	1)CARE BBB; Stable (06-Sep-22) 2)CARE BBB+ (CE); Negative (03-Aug-22) 3)CARE BBB+ (CE); Negative (06-Jul-22)	1)CARE BBB+ (CE); Negative (07-Oct-21) 2)CARE BBB+ (CE); Negative (07-Jul-21)	1)CARE BBB+ (CE); Stable (30-Sep-20)	1)CARE BBB+ (CE); Stable (09-Sep-19)
2	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (07-Oct-21) 2)Provisional CARE BBB+ (CE); Negative (07-Jul-21)	1)Provisional CARE BBB+ (CE); Stable (30-Sep-20)	1)Provisional CARE BBB+ (CE); Stable (09-Sep-19)
3	Un Supported Rating-Un Supported Rating (Long Term)	LT	-	-	1)Withdrawn (06-Sep-22) 2)CARE BBB (03-Aug-22) 3)CARE BBB (06-Jul-22)	1)CARE BBB (07-Oct-21) 2)CARE BBB; Stable (07-Jul-21)	1)CARE BBB; Stable (30-Sep-20)	1)CARE BBB; Stable (09-Sep-19)
4	Debt-Subordinate Debt	LT	20.00	CARE BBB+; Stable	1)CARE BBB; Stable (06-Sep-22) 2)CARE BBB; Stable (03-Aug-22) 3)CARE BBB; Stable (06-Jul-22)	1)CARE BBB; Stable (07-Oct-21) 2)CARE BBB; Stable (07-Jul-21)	1)CARE BBB; Stable (30-Sep-20)	1)CARE BBB; Stable (02-Dec-19)
5	Term Loan-Long Term	LT	117.30	CARE BBB+; Stable	1)CARE BBB; Stable (06-Sep-22) 2)CARE BBB; Stable (03-Aug-22)	-	-	-

					3)CARE BBB; Stable (06-Jul-22)			

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not available

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debt-Subordinate Debt	Complex
2	Fund-based - LT-Term Loan	Simple
3	Term Loan-Long Term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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