Satin Housing Finance Limited

September 06, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	117.30	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Long-term bank facilities	8.85	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB+ (CE); Negative [Triple B Plus (Credit Enhancement); Outlook: Negative]
Total bank facilities	**126.15 (₹ One hundred twenty-six crore and fifteen lakh only)**		
Long-term instruments	20.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Total long-term instruments	**20.00 (₹ Twenty crore only)**		

Details of instruments/facilities in Annexure-1.

Unsupported rating	**Withdrawn (from CARE BBB)**

Note: Unsupported rating does factor in the explicit credit enhancement.

Detailed rationale and key rating drivers

The revision in the rating on the bank facilities amounting to ₹8.85 crore is driven by the change in the criteria on the rating of the credit enhanced (CE) debt, which derecognises the support through a letter of credit (LC) for the credit enhancement in line with the updated Reserve Bank of India (RBI) circular. Simultaneously, the Unsupported rating has been withdrawn as there has been no CE rating outstanding.

The credit ratings of Satin Housing Finance Limited (SHFL) continue to draw comfort from the strong promoters in Satin Creditcare Network Limited (SCNL) having a long track record of operations and a strong investor base. The rating of SHFL is also supported by the comfortable capitalisation levels, backed by regular capital infusion by SCNL, good asset quality, and a comfortable liquidity position.

SHFL's rating is, however, constrained by the short track record of operations, small albeit growing loan book, and moderate seasoning of loan portfolio with exposure to a vulnerable borrower segment. The ability of the company to maintain and grow its loan book while maintaining asset quality remains a key rating monitorable.

Rating sensitivities

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

- Growth in loan book while maintaining controlled asset quality metrics.
- Maintaining adequate capital adequacy and liquidity.
- Geographical diversification in the portfolio.

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

- Deterioration in the asset quality, leading to a substantial increase in credit losses, thereby impacting the profitability and capitalisation levels.
- Deterioration in the liquidity and financial flexibility to raise capital at an optimum cost.

Detailed description of the key rating drivers

Key rating strengths

Comfortable capital structure driven by equity infusion from the parent: SHFL has a comfortable capital adequacy ratio (CAR) of 54.7% and gearing of 2.2x as on June 30, 2022, which is driven by regular equity infusion by SCNL. Until FY22, SCNL infused a capital of ₹100 crore in SHFL and has committed to infuse an additional ₹40 crore in the current financial year. Driven by expected debt-funded growth in the portfolio, the gearing levels are expected to increase but remain below 3.0x by the end of this fiscal.

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

Nil gross non-performing assets (GNPA), albeit with limited seasoning of portfolio: SHFL had nil gross non-performing assets (NPA) since the commencement of its business. Furthermore, the secured nature of the portfolio with an average loan-to-value (LTV) of 55.23%, as on March 31, 2022, supports the asset quality. However, given the track record of operations of sub-five years against the average portfolio tenor of 14.26 years, the portfolio churn is low, and therefore, is unseasoned. Furthermore, the high vulnerability of borrowing exposes the asset quality to economic downturns.

Key rating weaknesses

Moderate scale and limited market presence: With assets under management (AUM) of ₹331 crore as on June 30, 2022, the scale remains moderate as compared to large players in the housing finance industry. Furthermore, the operations are concentrated in only four states and union territories (UTs), with Uttar Pradesh contributing 44% of the AUM, followed by Haryana (24%), Rajasthan (20%), and Delhi (12%) as on March 31, 2022. The average ticket size is ₹10.64 lakh, with a tenor of 14.26 years and the average LTV of the portfolio is 55.23% as on March 31, 2022. The moderate scale and geographic concentration cause high sensitivity of SHFL to external shocks.

Moderate profitability: SHFL has a low interest spread, with an average yield on loans of 13.5% (annualised) for Q1FY22, against borrowing costs of 10.8%. The spread is low against the operating cost measured at 6.1% (annualised) of the average total managed assets (adjusted for the off-balance sheet portfolio) for Q1FY22. However, because of the low gearing, the net interest margin (NIM) is high, at 5.2% (annualised), which covers the operating and credit costs, thus resulting in a return on total assets (ROTA) of 0.4% (annualised) for Q1FY23. The operating efficiency is expected to improve with the increasing scale of operations, however, the company's ability to manage its credit cost with the seasoning of the portfolio remains a key rating monitorable.

Liquidity: Adequate

SHFL has adequate liquidity, supported by a well-matched asset-liability maturity profile. SHFL's expected inflows up to the next year (including unencumbered cash balance) were 1.25x of its expected outflows. The liquidity was further supported by an undrawn committed credit line of ₹25 crore from SCNL (of the total credit line of ₹30 crore) and an unencumbered cash balance of around ₹11 crore, which fully covers the debt obligations of ₹30.6 crore for the next six months.

Analytical approach

Standalone; factoring in the linkages and support from the parent entity, SCNL.

Applicable criteria

CARE Ratings' credit rating process
Policy on Default Recognition
Notching by factoring linkages in ratings
Consolidation
Financial ratios – Financial sector
Rating outlook and credit watch
Non-banking financial companies
Policy on Withdrawal of Ratings
Rating methodology – Housing finance companies

About the company – SHFL

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 National Housing Bank (NHB) to operate as a non-deposit-accepting housing finance company (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 March 31, 2022, SHFL's on-book loan portfolio stood at ₹304 crore, which comprised primarily affordable housing loans (67% of the loan book) and the balance 33% being LAP book.

Brief Financials of SHFL* (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23
TOI	29.57	38.04	11.78
PAT	1.37	3.04	0.33
Interest coverage (times)	1.15	1.25	1.07
Total assets	237.8	318.1	334.4
Net NPA (%)	0.00	0.00	0.07%
ROTA (%)	0.67	1.10	0.4%

A: Audited; *CARE Ratings' adjusted financials.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan		-	-	December 31, 2022	8.85	CARE BBB; Stable
Unsupported rating-Unsupported rating (long term)		-	-	-	0.00	Withdrawn*
Term loan-Long term		-	-	September 30, 2028	117.30	CARE BBB; Stable
Debt-Subordinate debt	INE02YC08016	December 17, 2019	14%	December 31, 2026	20.00	CARE BBB; Stable

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+ (CE); Negative (August 03, 2022) 2)CARE BBB+ (CE); Negative (July 06, 2022)	1)CARE BBB+ (CE); Negative (October 07, 2021) 2)CARE BBB+ (CE); Negative (July 07, 2021)	1)CARE BBB+ (CE); Stable (September 30, 2020)	1)CARE BBB+ (CE); Stable (September 09, 2019)
2.	Fund-based - LT-Term loan	LT	-	-	-	1)Withdrawn (October 07, 2021) 2)Provisional CARE BBB+ (CE); Negative (July 07, 2021)	1)Provisional CARE BBB+ (CE); Stable (September 30, 2020)	1)Provisional CARE BBB+ (CE); Stable (September 09, 2019)
3.	Unsupported rating-Unsupported rating (long term)	LT	-	-	1)CARE BBB (August 03, 2022) 2)CARE BBB	1)CARE BBB (October 07, 2021)	1)CARE BBB; Stable (September 30, 2020)	1)CARE BBB; Stable (September 09, 2019)

					(July 06, 2022)	2)CARE BBB; Stable (July 07, 2021)		
4.	Debt-Subordinate debt	LT	20.00	CARE BBB; Stable	1)CARE BBB; Stable (August 03, 2022) 2)CARE BBB; Stable (July 06, 2022)	1)CARE BBB; Stable (October 07, 2021) 2)CARE BBB; Stable (July 07, 2021)	1)CARE BBB; Stable (September 30, 2020)	1)CARE BBB; Stable (December 02, 2019)
5.	Term loan-Long term	LT	117.30	CARE BBB; Stable	1)CARE BBB; Stable (03-Aug-22) 2)CARE BBB; Stable (July 06, 2022)	-	-	-

*Long term/Short term.

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

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1.	Debt-Subordinate debt	Complex
2.	Fund-based - LT-Term loan	Simple
3.	Term loan-Long term	Simple
4.	Unsupported rating-Unsupported rating (long term)	Simple

Annexure-5: Bank lender details for this company

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

Note on 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:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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