

## Satin Finserv Limited

July 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long term bank facilities	50.00	CARE BBB+; Stable	Reaffirmed
Non-convertible debentures	5.00	CARE BBB+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The rating is based on the combined view of Satin Creditcare Network Limited (SCNL, rated CARE BBB+ Stable) and its wholly-owned subsidiaries – Satin Housing Finance Limited (SHFL, rated CARE BBB+ Stable) and Satin Finserv Limited (SFL).

The ratings continue to be supported by the established track record, 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. The ratings also reflect adequate capitalisation level supported by equity infusion from promoters, the diversified resource profile, and the comfortable liquidity.

The rating remains constrained with muted profitability levels reflected by ROTA of 0.1% with PAT of ₹4.8 crore in FY23. The profitability is constrained by significant write-offs of COVID related stressed assets in Q1FY23. However, profit after tax improved to ₹98.6 crore in Q4FY23 from net loss of ₹210 crore in Q1FY23 driven by reduction in credit costs to ₹14.8 crore from ₹325 crore during the period. The portfolio remains vulnerable to high concentration in standalone SCNL's portfolio with 20 largest borrowers / customers (pertaining to MSME book) contributing 4.8% of AUM along outstanding stressed book of standalone non-performing assets (covering net net-performing assets, investment in security receipt of ARC and standard restructured book as % of AUM) of 2.4%. The ability to maintain the credit costs and thereby, improving profitability over the medium term continues to be key rating monitoring factor.

The improvement in profit after tax was also driven by profit on direct assignment transaction, which was increased to 2.8% of average total assets in FY23 from 0.7% in previous financial year. Its contribution to profitability is expected to moderate, given that proportion of off-balance sheet portfolio is expected to reduce.

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 individually or collectively lead to positive rating action/upgrade:

- Improvement in the profitability indicators, with adjusted return on total assets (ROTA) being 2.0% on a sustained basis.
- Improvement in asset quality metrics along with reduction in % share of MSME book, reducing the concentration risk.

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

- Deterioration in asset quality from the current level or significant increase in credit costs.
- Increase in the leverage with AUM / tangible net worth 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 medium term driven by controlling the credit cost. The outlook also reflects the expectation that company will be able to raise equity and borrowing at competitive costs.

### Detailed description of the key rating drivers:

#### Key strengths

##### Established track record:

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

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

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 is at ₹9,115 crore as on March 31, 2023, compared to ₹7,617 crore as on March 31, 2022, registering 19.7% growth during the period. The proportion of direct assignment in consolidated AUM has increased to 25% from 16% during the period. The disbursement increased to ₹2,789 crore in Q4FY23 compared to Rs 1880 crore in previous quarter.

The operations of the company are headed by the promoter and Chairman & Managing Director, Mr. HP Singh. The company has got equity infusion of ₹62 crore in FY23, out of which ₹37 crore was infused by promoters and ₹25 crore was infused by Florintree Ventures. Accordingly, the promoter shareholding has increased to 39.5% as of March 31, 2023, from 36.7% a year earlier. The shareholding of other existing institutional investors has reduced on account of increase in equity shares of the company.

SFL commenced its operations in 2019 and is 100% owned by SCNL. Taraashna Financial Services Limited (TFSL), another wholly-subsiary of SCNL, got merged into SFL effectively March 01, 2023. It achieved AUM of ₹682 crore as of March 31, 2023, out of which JLG business correspondence is 66.7%, retail book is 23.7% and wholesale MSME book is 9.6%.

#### **Comfortable regulatory capital levels, though AUM / tangible net-worth on higher side:**

Capital adequacy ratio, however, remained comfortable at 26.6% as of March-2023, similar to 27.8% as of March 31, 2022, after dipping to 22.6% as of June 30, 2022, due to write-offs. Headline capital adequacy metrics were supported by equity infusion along with accretion to reserves. CAR of SHFL and SFL was comfortable at 45.3% and 47.0%, respectively, as of March 31, 2023.

However, the consolidated AUM / tangible net-worth increased to 6.1x as on March 31, 2023, from 5.2x as of March 31, 2022` despite no material change in capital adequacy ratio. This is due to increase proportion of direct assignment in consolidated AUM at 25% as of March 31, 2023, compared to 16% a year earlier (the direct assignment does not require any regulatory capital to be maintained). 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 65 active lenders as on March 31, 2023. As on March 31, 2023, the outstanding borrowing comprised term loans & PTC (50.6%), non-convertible debentures (15.5%), external commercial borrowings (5.3%), and direct assignment (28.6%) from banks (66.3%), non-bank financial institutions (9.1%), domestic financial institutions (5.2%), and overseas fund (19.5%). In Q4 FY23, SCNL got sanctioned borrowings of Rs 1483 crore at weighted average ROI of 11.2% and weighted average tenor of 2.2 years.

SFL's borrowing profile is primarily comprises of term loans (92.8%), PTC (4.2%) and NCD (3%) from NBFC (79.4%), banks (14.7%) and small finance bank (6%) as on March 31, 2023. In Q4FY23, SFL got sanctioned borrowings of Rs 27 crore at weighted average ROI of 14.3% and weighted average tenor of 2.5 years.

#### **Geographically diversified operations:**

SCNL has spread its operations and grown its portfolio in new states and currently has a presence in 24 states & union territories, 405 districts and 1,287 branches, with a borrower base of around 28.3 lakh active borrowers on consolidated basis as on March 31, 2023.

The highest contribution to AUM is from Uttar Pradesh at 26.9%, followed by Bihar 14.6%, and Punjab 6.6%. The contribution from Uttar Pradesh has increased from 21.0% as of March 31, 2021, owing to increased focus of the company on the state. The contribution of Bihar has declined from 15.6% to 14.6% during the period.

The AUM is well diversified on district basis. 96% of total districts covered contribute less than 1% to the portfolio individually. Furthermore, only 0.2% of districts contribute more than 2% to portfolio individually. The district wide granularity has improved over the past couple of years.

SFL's portfolio is diversified across 10 states, with large contribution from Maharashtra (23.1%), Bihar (17.9%), Gujarat (17.7%), Punjab (10.5%) and Delhi (10.7%) as of March 31, 2023.

#### **Key weaknesses**

##### **Stressed asset quality, albeit improving:**

SCNL's standalone GNPA improved to 3.3% as on March 31, 2023, from 8.0% a year earlier, driven by significant write-offs of COVID related stressed assets in Q1FY23. With provision coverage of 54.5%, the net NPA stands at 1.5% as on March 31, 2023. The standard restructured book remains low at 0.9% of gross loans as on March 31, 2023.

However, high concentration risk with 20 largest borrowers / customers (pertaining to MSME book) contributing ₹377 crore (6.5% of gross loans) along with investment in security receipts of ARC of ₹59.4 crore (1% of gross loan) adds to the asset quality risks.

SHFL has strong asset quality with GNPA of 0.3% as of March 31, 2023. SFL (consolidated with TFSL)'s GNPA improved to 4.6% as on March 31, 2023, from 5.4% a year earlier. On the off-balance sheet portfolio – JLG as business correspondence, FLDG given is maintained in form of cash equivalents.

SFL's retail book has 90+ dpd of 3.7%, while its MSME book has nil 90+ dpd as of March 31, 2023. Although JLG – BC portfolio has higher delinquencies with 90+ dpd of 17.6% as of March 31, 2023, it has risk only up to the FLDG given. All of the FLDG is in form of cash equivalents encumbered with corresponding bank.

#### **Moderate profitability metrics:**

The profitability has remained muted reflected by ROTA of 0.1% with PAT of ₹4.8 crore in FY23, owing to significant write-offs of COVID-19-related stressed assets in Q1FY23. However, profit after tax improved to ₹98.6 crore in Q4FY23 from net loss of ₹210 crore in Q1FY23 driven by reduction in credit costs to ₹14.8 crore from ₹325 crore during the period. The improvement in profit after tax was also driven by profit on direct assignment transaction, which was increased to 2.8% of average total assets in FY23 from 0.7% in previous financial year. Its contribution to profitability is expected to moderate, given that proportion of off-balance sheet portfolio is expected to reduce.

The net interest income / average total reported assets (for consolidated financials) have remained around 7.9% in FY23 marginally improved from 7.5% for FY22. The opex / average total reported assets have increased marginally to 6.8% in FY23 from 6.4% in FY22 due to slow growth in AUM 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.

The ability to maintain the credit costs and thereby, improving profitability over the medium term continues to be key rating monitoring factor.

SFL's return on total managed assets (adjusted for off-balance sheet exposure) was 0.7% in FY23, constrained by high opex of 7.8%. However, opex is expected to moderate with increase in scale of operation over the medium term.

#### **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 March 31, 2023. 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.

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 March 31, 2023, SCNL had an unencumbered cash balance of ₹265 crore against debt obligations of ₹180 crore in the next one 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 1.1x of undiscounted outflows as of March 31, 2023. Inflows of SFL up to the next one-year bucket (including bank balance and liquid investments) cover 1.7x of outflows. SHFL and SFL has unutilized limit of ₹30 crore from parent to manage liquidity.

#### **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 seven directors on its board, comprising one promoter director, five independent directors, and one non-independent directors.

#### **Applicable criteria**

[Policy on default recognition](#)

[Consolidation](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios - Financial Sector](#)

[Rating Outlook and Credit Watch](#)

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[Non Banking Financial Companies](#)

## About the company and industry

### Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Non Banking Financial Company (NBFC)

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 95% of its portfolio as on March 31, 2023, 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 two subsidiaries, viz, Satin Housing Finance Limited (SHFL), and Satin Finserv Ltd (SFL).

SHFL is a housing finance company (HFC) registered with the National Housing Bank (NHB), which undertakes extension of home loans and loan against property. Currently, SHFL sources its business from four states. It commenced lending operations in February 2018 and has built AUM of ₹505 crore as on March 31, 2023.

SFL is into MSME and retail loans, which is spread in 10 states / UTs with 22 branches and AUM of ₹226 crore as on March 31, 2023. SCNL's erstwhile subsidiary Taraashna Financial Services Limited, which got merged into SFL effectively March 01, 2023, has business of business correspondence in JLG loans for banks / financial institution. This segment has its presence in six states / UTs with 157 branches and AUM of ₹456 crore as on March 31, 2023.

Brief Financials of SCNL Consolidated (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	1380.9	1,559.0
PAT	20.7	4.8
Interest coverage (times)	1.1	1.0
Total Assets	7,655.3	7,849.6
Net NPA (%)	2.4	1.5
ROTA (%)	0.3	0.1

Brief Financials of SCNL Standalone (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	1,261.9	1,761.5
PAT	40.2	264.3
Interest coverage (times)	1.1	1.6
Total Assets	7,375.4	7,645.4
Net NPA (%)	2.4	1.5
ROTA (%)	0.5	3.5

Brief Financials of SHFL (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	38.0	61.9
PAT	3.0	5.9
Interest coverage (times)	1.2	1.3
Total Assets	315.5	483.0
Net NPA (%)	0.0	0.3
ROTA (%)	1.1	1.5

Brief Financials of SFL (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	97.1	106.5
PAT	-20.1	6.1
Interest coverage (times)	NM	1.4
Total Assets	266.1	329.2
Net NPA (%)	3.3	2.9
ROTA (%)	NM	2.0

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'; 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

**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
Debentures-Non Convertible Debentures	INE03K307017*	29-Jun-2020	15.75%	29-Jun-2023	5.00	CARE BBB+; Stable
Fund-based - LT-Term Loan		-	-	Feb 01 2026	50.00	CARE BBB+; Stable

\*Matured – pending withdrawa;

### 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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	50.00	CARE BBB+; Stable	1)CARE BBB+; Stable (06-Apr-23)	1)CARE BBB-; Stable (06-Sep-22) 2)CARE BBB+ (CE); Negative (06-Jul-22)	1)CARE BBB+ (CE); Negative (05-Oct-21) 2)CARE BBB+ (CE); Negative (07-Jul-21) 3)CARE BBB+ (CE); Stable (08-Apr-21)	1)CARE BBB+ (CE); Stable (14-Apr-20)
2	Un Supported Rating-Un Supported Rating (Long Term)	LT	-	-	1)Withdrawn (06-Apr-23)	1)CARE BBB- (06-Sep-22) 2)CARE BBB- (06-Jul-22)	1)CARE BBB- (05-Oct-21) 2)CARE BBB- (07-Jul-21) 3)CARE BBB-	1)CARE BBB- (14-Apr-20)

							(08-Apr-21)	
3	Debentures-Non Convertible Debentures	LT	5.00	CARE BBB+; Stable	1)CARE BBB+; Stable (06-Apr-23)	1)CARE BBB+ (CE); Stable (06-Sep-22) 2)CARE A-(CE); Negative (06-Jul-22)	1)CARE A-(CE); Negative (05-Oct-21) 2)CARE A-(CE); Negative (07-Jul-21) 3)CARE A-(CE); Stable (08-Apr-21)	1)CARE A-(CE); Stable (26-Jun-20)
4	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (06-Sep-22) 2)Provisional CARE A-(CE); Negative (06-Jul-22)	1)Provisional CARE A-(CE); Negative (05-Oct-21) 2)Provisional CARE A-(CE); Negative (07-Jul-21) 3)Provisional CARE A-(CE); Stable (08-Apr-21)	1)Provisional CARE A-(CE); Stable (26-Jun-20)

\*Long term/Short term.

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

**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Simple
2	Fund-based - LT-Term Loan	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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