

Satin Creditcare Network Ltd.

August 24, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	200.00	200.00	[ICRA]A2+; Upgraded from [ICRA]A2
Non-convertible Debenture Programme	190.00	190.00	[ICRA]A- (Stable); Upgraded from [ICRA]BBB+(Stable)
Subordinated Debt Programme	128.00	128.00	[ICRA]A- (Stable); Upgraded from [ICRA]BBB+(Stable)
Preference Share Programme	45.00	45.00	[ICRA]BBB+ (hyb) (Stable); Upgraded from [ICRA]BBB (hyb) (Stable)
Total	563.00	563.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the rating on the Rs. 190-crore non-convertible debenture (NCD) programme and Rs. 128-crore subordinated debt programme of Satin Creditcare Network Ltd. (SCNL) from [ICRA]BBB+ (pronounced ICRA triple B plus) to [ICRA]A- (pronounced ICRA A minus). ICRA has also upgraded the ratings on the Rs. 45.00-crore¹ preference share programme from [ICRA]BBB (hyb) (pronounced as ICRA triple B hybrid) to [ICRA]BBB+ (hyb) (pronounced as ICRA triple B plus hybrid) and on the Rs. 200-crore commercial paper programme from [ICRA]A2 (pronounced as ICRA A two) to [ICRA]A2+ (pronounced as ICRA A two plus) of SCNL². The outlook on the long-term ratings is Stable.

Rationale

The ratings revision factors in SCNL's improved scale of operations, improved geographic diversification at state and district levels, SCNL's raising of capital at regular intervals supported by a capital infusion of Rs. 404.3 crore in FY2018 and improve financial flexibility arising out of a diversified lender base. ICRA has noted an improvement in the company's asset quality indicators (0+ dpd improved to 5.9% as on June 30, 2018 from 36.0% as on March 31, 2017), supported by a good collection efficiency of new loans. The ratings continue to factor in SCNL's experienced management team, strong investor profile, good management information systems (MIS) and risk management systems, and its improved capitalisation profile, following multiple equity infusions in FY2018. The ratings are, however, constrained by moderate profitability indicators, impacted largely because of demonetisation-related credit costs. ICRA notes that the marginal borrower profile and the unsecured nature of microfinance loans could lengthen the recovery process in the harder buckets.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Stable

ICRA believes SCNL will continue to benefit from the extensive experience of its partners. The outlook may be revised to Positive if a substantial improvement in the asset quality or capitalisation strengthens the financial risk profile. It may be revised to a Negative if credit costs are higher than expected and subdued profitability during FY2019 weaken financial risk profile.

Key rating drivers

Credit strengths

Experienced and professional management team - SCNL has a strong and experienced senior management team that is actively engaged in the day-to-day operations and decision making. The senior management team is composed of professionals recruited from banks, retail finance companies, and microfinance institutions. The company has a well-defined organisation structure with a three-tier reporting hierarchy, including the branch manager, territory manager (supervising three-four branches), and regional manager (supervising five-eight territories). As on June 30, 2018, the company operated through more than 838 branches with 7,951 staff members, of whom a majority were field officers.

Strong investor profile - SCNL has good quality investors, who have infused multiple rounds of equity into the company, which raised a total of Rs. 404.3-crore in FY2018 and Rs. 250-crore in FY2017 through investors such as the Asian Development Bank, Kora Capital and Norwegian Microfinance Initiative.

Improved capitalisation profile following equity infusions in FY2018 – SCNL raised a total of Rs. 404.3 crore in FY2018, taking its net worth to Rs. 964.2 crore (excluding preference shares) (as per Ind AS) as on June 30, 2018. As on June 30, 2018, SCNL had a capital adequacy of 26.36% with Tier 1 of 19.89%. These capital infusions have strengthened SCNL's capitalisation profile and loss-absorption capacity. Going forward as well, ICRA expects the company to maintain capitalisation at adequate levels.

Diversified funding profile – SCNL has a well-diversified funding profile with over 100 lenders in its borrowing profile. The company has access to funding through term loans from banks and non-banking finance companies (NBFCs), NCDs, external commercial borrowings, commercial papers, subordinated debt and securitisation. SCNL has continued to receive funding, post demonetisation, and had outstanding borrowings of Rs. 5,165-crore, as on March 31, 2018, of which bank funding accounted for 36%.

Good MIS, risk management and internal audit systems – SCNL recently migrated to an in-house software system, which enables it to track every client, group, centre, branch, territory, region, and zone, apart from the company in its entirety. The system will bring with it significant productivity improvements through automation and will help realise operational efficiencies. The new software will enable cashless disbursements and collections. The company will also be able to track data on a real-time basis, which will aid decision-making.

SCNL conducts quarterly branch audits and has an independent internal audit team of 17-20 auditors. Field auditors are responsible for monitoring about six-eight branches within a region. Auditors go through the company processes and policies in detail and highlight process deviations in the presence of the operations staff. Three types of audits are conducted: full branch audits (12 days), short branch audits (10 days) and region audits (three days). Each audit is conducted by surprise and covers a range of processes in loan generation including documentation, file management, cash management, loan utilisation checks, centre meetings, and collection.

Credit challenges

Exposure to demonetisation-affected states – SCNL was present in 18 states across 307 districts through 838 branches as on June 30, 2018. However, the share of Uttar Pradesh although remained high, has come down to 30% and the top five states accounted for 75% of the portfolio while the top three states accounted for 59% of the portfolio as on March 31, 2018. ICRA notes that SCNL's geographic diversification has improved over the past few years from the share of top three and top five states at 75% and 89% as of March 2016. The MFI was impacted severely by the high portfolio concentration in the demonetisation-affected regions of Uttar Pradesh, Madhya Pradesh, Punjab and Maharashtra, on account of political interference, cash crunch and impact on livelihood. The top five and top 10 districts accounted for 11.8% and 20.2% of the overall joint liability group (JLG) portfolio, respectively, as on March 31, 2018 vis-à-vis 15.5% and 27.1% respectively as on March 31, 2016.

Improved asset quality indicators – The company's overall asset quality indicators have improved gradually to 0+ delinquency of 5.9%, as on June 30, 2018, from 36.0%, as on March 31, 2017, supported by portfolio growth, increase in disbursements, top-up loans offered and write-offs. The company had a gross NPA of 3.93% as on June 30, 2018. Further the company adopted Ind-AS from Q1 FY2019 and had an ECL provision of 3.52%, leading to unprovided NPA of 0.41%. While the asset quality indicators have been improving, the company's ability to maintain asset quality in the new originations and top-up loans and maintaining the field discipline will be important for its credit profile.

Marginal borrower profile - The ratings factor in the risks associated with an unsecured lending business, as well as the political and operational risks arising out of handling cash, which were evident, post demonetisation. Given the marginal borrower profile, the MFI borrower has a limited cushion to absorb income shocks, which could make recovery from harder buckets difficult. SCNL had a 90+ dpd and 180+ dpd of 3.93% and 2.53%, respectively, as on June 30, 2018. The company's ability to recover from overdue clients and control its credit costs would be critical from a credit perspective.

Weak profitability indicators given high credit costs³ – SCNL's overall profitability indicators declined during FY2018 on account of elevated credit costs of 3.7% (1.1% during FY2017), which resulted in a reduction in return on managed assets (RoMA) and return on equity (RoE) to 0.07% and 0.47%, respectively, from 0.5% and 5.1%, respectively, in FY2017 (1.6% and 22.4%, respectively, in FY2016). The company's cost-to-income ratio improved to 57.6% in FY2018 from 77.6% in FY2017. Operating expenses, as a percentage of average managed assets, improved to 4.69% from 5.37% during the same period as SCNL moved to a new online, end-to-end loan management system, which enables it to perform instant credit bureau checks, track important data on a real-time basis to enable prompt decision-making, reduces paperwork and improves operating efficiencies. SCNL's profitability has improved QoQ after reporting losses in Q4 FY2017 and Q1 FY2018 due to increased provisioning costs, the company has steadily reported improved profitability during subsequent quarters, including Q1 FY2019 with a PAT of Rs. 25.1 crore and an ROE of 10.73%. The company's ability to improve operating efficiencies and control credit costs would be crucial, going forward.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Rating Methodology for Non-Banking Finance Companies](#)

³ FY2018 financials as per IGAAP and Q1FY2019 financials as per Ind AS

About the company

SCNL was set up in 1990 to provide individual business loans to urban shopkeepers and started group lending services to the rural poor in 2008. It was registered with the Reserve Bank of India (RBI) as a deposit-taking non-banking finance company (NBFC) under the name, Satin Leasing and Finance Company Limited. Following its conversion into a public limited company in 1994, it was renamed Satin Creditcare Network Limited in 2000. The company stopped accepting public deposits from November 2004 and the RBI changed its classification to Category B (non-deposit taking) from Category A (deposit taking) in February 2009.

The company's microfinance operations are based on the Grameen Bank joint liability group (JLG) model and were spread across 838 branches in India as on June 30, 2018.

SCNL is listed on the National, Bombay and Calcutta stock exchanges. As on June 30, 2018, the company's managed portfolio (standalone) was Rs. 5,400 crore. SCNL reported profit after tax (PAT) of Rs. 4.03 crore on an asset base of Rs. 5,807 crore in FY2017 as against a PAT of Rs. 24.5 crore on managed assets of Rs. 4,748 crore in FY2017. SCNL's regulatory capital adequacy as on March 31, 2018 stood at 26.36% and its gross and net NPA stood at 3.93% and 0.41%, respectively.

Key financial indicators (audited)

	FY2017	FY2018
Net Interest Income	215.7	390.5
Profit Before Tax	37.2	3.6
Profit After Tax	24.5	4.0
Gross Advances	3,617	5,085
Total Managed Assets	5,166	6,589
% Tier 1	16.58%	23.65%
% CRAR	24.14%	20.30%
Gearing	6.14	4.59
% Net Profit / Average Managed Assets	0.52%	0.07%
% Return on Net Worth	5.10%	0.49%
% Gross NPA	0.63%*	4.44%
% Net NPA	0.32%*	2.62%
Net NPA / Net Worth	59.55%	13.22%

Amounts in Rs. Crore; All indicators as per IGAAP

Source: ICRA research and company

*With RBI dispensation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years					
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018			Date & Rating in FY2017		Date & Rating in FY2016
				August 2018	March 2018	December 2017	December 2017	March 2017	February 2016	
1 Commercial Paper	Short Term	200.00	200.00	[ICRA]A2 +	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	-	-
2 Preference Share	Long Term	45.00	45.00	[ICRA]BB B+ (hyb) (Stable)	[ICRA]BB B (hyb) (Stable)	[ICRA]BB B (hyb) (stable)	[ICRA]BBB+ (hyb) (negative)	-	-	-
3 NCD	Long Term	190.00	190.00	[ICRA]A- (Stable)	[ICRA]BB B+ (Stable)	[ICRA]BB B+ (stable)	[ICRA]BBB+ (negative)	[ICRA]BBB+ (negative)	[ICRA]BB B+ (stable)	[ICRA]BB B+ (stable)
4 Subordinated debt	Long Term	128.00	128.00	[ICRA]A- (Stable)	[ICRA]BB B+ (Stable)	[ICRA]BB B+ (stable)	[ICRA]BBB+ (negative)	[ICRA]BBB+ (negative)	[ICRA]BB B+ (stable)	[ICRA]BB B+ (stable)

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper	NA	NA	7-365 days	200	[ICRA] A2+
INE836B07162	NCD – 1	8-May-15	14.50%	18-Dec-20	2	[ICRA]A- (Stable)
INE836B07238	NCD - 2					[ICRA]A- (Stable)
INE836B07246		30-Jun-16	12.50%	30-Jun-19	60	
INE836B07253						
INE836B07279	NCD – 3	3-Nov-16	13.35%	30-Nov-20	50	[ICRA]A- (Stable)
INE836B08145						
INE836B07329	NCD – 4	7-Dec-2017	11.34%	7-Dec-2020	45	[ICRA]A- (Stable)
INE836B07337	NCD – 5	8-Dec-2017	11.99%	8-Dec-2020	33	[ICRA]A- (Stable)
INE836B08020	Sub-debt – 1	20-Mar-15	16.90%	20-Sep-20	15	[ICRA]A- (Stable)
INE836B08038	Sub-debt – 2	31-Mar-15	17.75%	18-Dec-20	13	[ICRA]A- (Stable)
INE836B08046	Sub-debt – 3	29-Jul-16	15.00%	29-Jul-23	25	[ICRA]A- (Stable)
INE836B08061	Sub-debt – 4	30-Dec-15	15.50%	15-Apr-22	25	[ICRA]A- (Stable)
INE836B08103						[ICRA]A- (Stable)
INE836B08111	Sub-debt – 5	29-Jun-16	15.00%	30-Sep-22	40	
INE836B08129						
INE836B08137						
INE836B08095	Sub-debt - 6	28-Jun-16	15.50%	28-Sep-22	10	[ICRA]A- (Stable)
INE836B03021	Preference Share – 1	28-Dec-17	0.01%	28-Jun-19	45	[ICRA]BBB+ (hyb) (Stable)

Source: Satin Creditcare Network Ltd.

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