

## Press Release

Satin Finserv Limited

November 17, 2022



## Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	50.00	ACUITE BBB+   Stable   Assigned	-
Total Outstanding Quantum (Rs. Cr)	50.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## Rating Rationale

Acuite has assigned the long term rating of **ACUITE BBB+ (read as ACUITE triple B plus)** on the Rs. 50.00 Cr long term bank facilities of Satin Finserv Limited (SFL). The outlook is 'Stable'.

### Rationale for the rating

The rating takes into consideration the established position and long track record of Satin Group and the support Satin Finserv draws from the parent. The rating also takes into consideration healthy capitalisation, comfortable liquidity and well diversified resource profile of the Satin group. At the end of Q1FY23, Satin group had a comfortable liquidity of ~1017 Cr. The rating also takes in to consideration the recent traction showed in disbursement levels by Satin group as denoted by ~Rs.1708 Cr. disbursed during Q1FY23 as compared to ~Rs. 282 Cr. in Q1FY22. SFL's disbursement improved to ~Rs.30.47 Cr. during Q1FY23 as compared to ~Rs.3.77 Cr. in Q1FY22. CAR of Satin Creditcare Network Limited (SCNL), parent company, stood at ~28 percent as on March 31, 2022. SFL had a healthy capitalisation marked by CAR of ~64 percent as on March 31, 2022.

The rating is partially offset by decline in AUM of the group, weak earning profile and moderate asset quality of the group. The AUM of Satin group stood at ~Rs. 7569 Cr. as on Q1FY22 as compared to ~Rs. 7617 Cr. for FY22 and ~Rs. 8379 Cr. for FY21. However, AUM of SFL improved from ~Rs. 130 Cr. in FY21 to ~Rs. 176 Cr. as on Q1FY23. Satin group made a loss of ~Rs.209 Cr. in Q1FY22 as compared to loss of ~Rs.81 Cr during Q1FY22. PAT for FY22 stood at ~Rs. 21 Cr. SFL's PAT for Q1FY22 stood at ~Rs.1 Cr. SFL's PAT for FY22 had decreased to ~Rs. 1.8 Cr. from ~Rs.4.8 Cr. in FY21.

The rating also considers the high quantum of restructured accounts in the portfolio and accordingly high credit costs.

Moving forward, Satin group's and SFL's ability to increase its AUM while improving the asset quality and improving the profitability metrics will be key monitorables.

### About the company

Incorporated in 2018, SFL is a 100 percent subsidiary of SCNL, the flagship company of Satin group. SFL obtained its license from RBI in 2019. SFL is engaged in the business of providing various financial services to entrepreneurs, MSMEs and individual businesses, as well as

lending to other MFI companies through its 16 branches across 9 states with 5486 borrowers as on June, 2022. SFL offers products in the retail segment, with ticket size upto Rs. 3.5 Lakh and wholesale segment, with ticket size up to Rs. 5 Cr.. 61.33 % of SFL's portfolio consisted of retail products and the rest in wholesale segment, as on June 30, 2022. The company will be focusing on the retail segment for the near future.

### **About the Group**

Satin Creditcare Network Limited (SCNL) is the flagship company of Satin Group which started its operations in 1990. It started with providing financial services to shopkeepers in the unbanked sectors of the society. After three decades SCNL is one the major players in the country in the MFI and SME lending sector.. Headquartered in Gurugram, Haryana, the company focuses on providing inclusive growth through its various financial products. SCNL has Satin Housing Finance Limited, Satin Finserv Limited, and Taraashna Financial Services Limited as subsidiaries. All together these companies form Satin Group.

### **Analytical Approach**

While arriving at the ratings, the team has taken a consolidated view of the credit profile of Satin group of companies (SCNL has Satin Housing Finance Limited, Satin Finserv Limited, and Taraashna Financial Services Limited as subsidiaries), collectively referred to as the Satin group. The consolidation is in view of common promoters, shared brand name, and strong financial and operation synergies. Acuité expects financial, managerial and operational support from SCNL will continue to be available to all the key group companies of Satin group.

Extent of consolidation - Full.

### **Key Rating Drivers**

#### **Strength**

#### **Strong and established track record and experienced management**

The Satin group was founded in 1990. Now after three decades it is one the major players in the country in the MFI and SME lending sector.

Satin group is led by Mr. Harvinder Pal Singh, who has been incremental in the group's growth. Besides lending, he has experience in the field of auditing, accounts, project financing, advisory services and company law matters. His financial engineering experience of more than three decades has helped the Company in operational strategy and efficiency. He is also part of the SFL board. SCNL and SFL also get the guidance of Mr. Sundeep Kumar Mehta, who is an independent director and has an experience of nearly two decades. Previously he was associated with the RKJ group, Escorts Ltd, Panacea Biotech Ltd, Bata India Ltd, and Eicher Good Earth Ltd at different capacities. The board of directors of SCNL and SFL also have Mr Anil Kumar Kalra who has nearly four decades of experience in Banking, Financial Services, Investment Banking and Infrastructure Financing both in India and abroad. The SCNL board of directors include Mr Satvinder Singh, who was associated with the company since inception and served as MD for over 15 years. SCNL have Mr Christian Ramm, nominee director from Nordic Microfinance Initiative (NMI), one of the shareholders, a public-private partnership investing in financial inclusion institutions in Asia and Africa. SCNL draws support from Mrs Sangeeta Khorana, Independent Director, who is a former Indian Civil Services officer with a doctorate in International Economics. SCNL also has Mr Goh Colin, founder and CEO of the RICE Co. Ltd. and Mr Sanjay Bhatia, who has more than three decades of experience across leading corporates, start-ups and BAU environments, as independent directors.

SFL have Mr Sumit Mukherjee on the board of directors as whole-time director and CEO, who has three decades of experience in the NBFC space. He was previously associated with Ashok Leyland Finance, Citicorp, Magma Fincorp Ltd. And was CBO at Neogrowth Credit private Ltd. SFL also have Ms Jyoti Ahluwalia, Woman Independent Director, who has a Ph.D. in commerce and is a seasoned academician and has held various important roles in corporates such as Actuarial Analysts at Milliman India (Actuaries and Consultants), Syndicated Research Analyst at Corporate Executive Board.

### **Improvement in disbursements**

Satin group disbursed ~Rs. 1708 Cr. in Q1FY23, which improved from ~Rs. 282 Cr. during Q1FY22. The total disbursement for FY22 at group level stood at ~Rs. 4845 Cr. as compared to ~Rs. 4981 Cr. in FY21. As a conscious strategy during the uncertainties of Covid, the group made lesser disbursements during FY21 and FY22.

SFL disbursed ~Rs.30.47 Cr. during Q1FY23 as compared to ~Rs.3.77 Cr. in Q1FY22. Total disbursement by SFL in FY22 stood at ~Rs. 96 Cr. as compared to ~Rs.60 Cr. in FY21. SFL has disbursed majorly in the retail segment as the company is strategically bringing down the wholesale exposure. As of June 30, 2022, the portfolio had ~61 percent of retail segment composition and ~39 percent in wholesale segment, which were ~53 percent and ~47 percent as on March 31, 2022.

As the uncertainties of Covid has cleared, Acuite expects the disbursement trends to continue at the group and company levels which will lead to improvement in AUM.

### **Healthy Capitalization levels; recent capital infusions**

SFL had healthy capitalisation as the CAR stood at ~64 percent as on March 31, 2022. CAR as on March 31, 2021, was ~80 percent. The gearing as on March 31, 2022, stood at ~0.71 times, which is lower compared to the peers in the segment, provides further scope for expansion of the portfolio. Moreover, the repeated exposure of the lenders which includes public and private institutions, shows the confidence in SFL.

CAR of SCNL stood at ~28 percent as on March 31, 2022.

Satin group has issued equity shares and fully convertible warrants of Rs.225 Cr. In FY22, of which Rs. 75 Cr. has been received in Q4FY22. The issue will be fully executed by July 2023.

### **Weakness**

#### **Decline in Group level AUM**

The AUM of Satin group stood at ~Rs. 7569 Cr. As on Q1FY22 as compared to ~Rs. 7617 Cr. for FY22 and ~Rs. 8379 Cr. For FY21. The reduction in AUM was account of lower disbursements during FY22 and FY21, which stood at ~Rs. 4845 Cr. And ~Rs.4981 Cr. respectively as compared to ~Rs.8045 Cr. In FY20. However, the decreased disbursements was a consciously adopted business strategy to cope with the uncertainties created by Covid. The group focused on client retention rather than client acquisition during this period.

During the period, AUM of SFL improved from ~Rs. 130 Cr. In FY21 to ~Rs. 166 Cr. In FY22 and ~Rs. 176 Cr. As on Q1FY23.

#### **Weak earning profile**

PAT for FY22, for Satin group, stood at ~Rs. 21 Cr. as compared to a loss of ~14 Cr. in FY21. However, Satin group made a loss of ~Rs.209 Cr. In Q1FY22 as compared to loss of ~Rs.81 Cr during Q1FY22. The loss in Q1FY23 was majorly on account of the writeoff of Rs. 275 Cr by SCNL. SFL has been profitable for the past three years. SFL's PAT for Q1FY22 stood at ~Rs.1 Cr. SFL's PAT for FY22 had decreased to ~Rs. 1.8 Cr. From ~Rs.4.8 Cr. in FY21. Muted growth in the income levels coupled with increase in OPEX has resulted in decline of PAT and ROA, which reduced from 3.54 percent in FY21 to 1.11 percent in FY22.

However, considering the new regulations of RBI in micro finance sector, Acuite expects the NIM and margins of the group to improve in the coming quarters.

#### **Moderate Asset quality**

The GNPA levels of Satin group remained at moderate levels of 7.50 percent in FY22.

The standalone GNPA of SCNL stood at high levels of ~8.01 percent in FY22 from 8.40 percent in FY21. Due to the writeoff of Rs. 275 Cr. in Q1FY23, the GNPA has come down to ~4.38 percent in Q1FY23.

SFL's GNPA for Q1FY23 stood at 4.20 percent as compared to 4.28 percent in FY22, which increased from 1.50 percent in FY21. The company also has a restructured portfolio of ~6 percent of AUM.

Going forward Satin's ability to improve its portfolio and profitability while improving the asset quality will be the key monitorables.

### **ESG Factors Relevant for Rating**

Satin Group focuses on lending to the unbanked population. Some of the material governance issues for the financial services sector are policies and practices with regard to business ethics, board diversity and independence, compensation structure for board and KMPs, role of the audit committee and shareholders' rights. On the social aspect, some of the critical issues for the sector are the contributions to financial inclusion and community development, responsible financing including environmentally friendly projects and policies around data privacy. The industry, by nature has a low exposure to environmental risks.

The entity maintains adequate transparency in its business ethics practices as can be inferred from the entity's disclosures regarding related party transactions, vigil mechanism and whistle blower policy. The board of directors of the SCNL comprise of 5 independent directors including 1 female independent director out of a total of 8 directors. SFL has 5 directors of which 3 are independent directors including 1 female independent director. The audit committee formed by the entity majorly comprises of independent directors with the objective to monitor and provide an unbiased supervision of the management's financial reporting process. Satin Group also maintains transparency in terms of disclosures pertaining to interest rate policy and its adherence to Fair Practice Code as disseminated by Reserve Bank of India's circular

In the last 5 years, the Group has spent more than Rs. 11 Cr. to contribute to a range of aspects that help enhance the lives of the community. The group actively supports the educational initiatives for less privileged students in Punjab. The group regularly conducts skill development programmes and financial literacy programmes for its women borrowers.

Satin group has been working towards safe water and sanitation in around 121 districts and more than 35,000 villages in 8 states viz Bihar, Chhattisgarh, Uttar Pradesh, West Bengal etc.. SCNL's is running clean energy programmes by providing customized financial solution. The Group received a Certificate of Excellence by UNFCC's Clean Development Program.

### **Rating Sensitivity**

- Growth in AUM and disbursements
- Movement in profitability metrics
- Movement in asset quality and credit costs

### **Material Covenants**

SFL and Satin group are subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality, among others.

### **Liquidity Position**

#### **Adequate**

Satin Group's liquidity buffers primarily depend on its cash inflows (collections from clients and loans from banks) vis. a vis. the cash outflows (disbursements, debt servicing commitments, operating expenses). The group reported a liquidity of ~Rs.1,017 crore at the end of June 30,2022. SCNL reported a collection efficiency of ~97 percent for Q1FY23 (excluding the restructured accounts).

There were no negative mismatches in the ALM statement of SFL and the average monthly collection for the company stands at ~91 percent as on July, 2022. SFL also has credit line of Rs. 30 Cr. from SCNL, which has remained utilised for the past two years.

Acuite believes Satin Group has adequate liquidity to meet its debt obligation in near to medium term.

### **Outlook : Stable**

Acuite believes that Satin Group and SFL will maintain a 'Stable' outlook over the medium term supported by its established presence in the microfinance and SME segment along with demonstrated ability to grow its AUM. The outlook may be revised to 'Positive' in case of higher than expected growth in AUM while maintaining key operating metrics, asset quality and liquidity. The outlook may be revised to 'Negative' in case of any headwinds faced in

scaling up of operations or in case of any challenges in maintaining its asset quality, profitability metrics and capital adequacy parameters around existing levels

### Other Factors affecting Rating

None

### Key Financials - Satin Finserv Limited

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Total Assets	Rs. Cr.	185.64	140.70
Total Income*	Rs. Cr.	20.66	20.41
PAT	Rs. Cr.	1.81	4.78
Net Worth	Rs. Cr.	108.29	106.46
Return on Average Assets (RoAA)	(%)	1.11	3.54
Return on Average Net Worth (RoNW)	(%)	1.69	4.59
Total Debt/Tangible Net worth (Geraing)	Times	0.71	0.30
Gross NPA	(%)	4.28%	1.50%
Net NPA	(%)	3.29%	0.78%

\*Total income equals to Net Interest Income plus other income.

### Key Financials - Consolidated

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Total Assets	Rs. Cr.	7572.73	7992.52
Total Income*	Rs. Cr.	754.26	735.70
PAT	Rs. Cr.	20.70	(13.99)
Net Worth	Rs. Cr.	1581.85	1486.16
Return on Average Assets (RoAA)	(%)	0.27	(0.18)
Return on Average Net Worth (RoNW)	(%)	1.35	(0.95)
Total Debt/Tangible Net worth (Geraing)	Times	3.63	4.16
Gross NPA#	(%)	8.01%	8.40%
Net NPA#	(%)	2.38%	5.02%

\*Total income equals to Net Interest Income plus other income.

#standalone data of SCNL

### Status of non-cooperation with previous CRA (if applicable):

None

### Any other information

None

### Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>

### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such



instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

**Rating History:**

Not Applicable

**Annexure - Details of instruments rated**

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	33.04	ACUITE BBB+   Stable   Assigned
State Bank of India	Not Applicable	Term Loan	Not available	9.15	Not available	Simple	16.96	ACUITE BBB+   Stable   Assigned

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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