

Press Release

Saija Finance Private Limited

November 10, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs. 53.50 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Negative (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) on the Rs. 43.50 crore Non-Convertible Debentures and Rs. 10 crore Proposed Non-Convertible Debentures Programme of Saija Finance Private Limited. The outlook is '**Negative**'.

About the company

Saija Finance Private Limited (SFPL) is a Bihar based Microfinance Institution (MFI) incorporated in the year 1997 in the name of Regars Finance Pvt Ltd. The company was registered with RBI as a Non-Deposit taking Non-Banking Finance Company (NBFC) in 2009 and was re-classified as NBFC-MFI in 2013. The company was founded by Mr. Sashi Ranjan Sinha and Ms. Rashmi Sinha.

SFPL is engaged in providing microfinance services to rural, semi-urban and urban poor, as well as micro and small businessmen under the Joint Liability Group Model (JLG) in Northern & Eastern India. As on March 31, 2020, the company is operating across 5 States, i.e. Bihar, Jharkhand, Uttar Pradesh, Haryana and Punjab having a network of 101 branches across 59 districts.

Analytical Approach

Acuite has considered the standalone financial and business risk profile of SFPL to arrive at the rating.

Key Rating Drivers

Strengths

- Experienced management supported by reputed investors

SFPL commenced its microfinance activities in 2007. The company was founded by Mr. Sashi Ranjan Sinha having experience over three decades in the financial services sector. In 2009, Accion Investments, a US based social impact fund, acquired 49% stake in the company and provided the company with Technical and Manpower support, IFC Grant Support. In 2011, Pragati Investments Fund Limited (PIFL), a UK based CDC group fund also acquired a stake in the company. As on March 31, 2020, Accion and PIFL held ~87% of the stake in the company. The balance is held by the promoters along with employees trust.

The day-to-day operations are managed by the promoter Mr. Sashi Ranjan Sinha and Mrs. Rashmi Sinha along with the support of functional heads. The board comprises of other than promoters, two directors representing Accion Investments, one director representing PIFL and two independent directors.

Acuite understands that both the private equity investors, i.e. Accion and PIFL had in the past, explored the exit option. However, now they are willing to infuse additional equity and also exploring the option of roping in strategic investor to support its growth potential. The timeliness and quantum of this additional equity will be crucial to the maintenance of a stable liquidity and credit profile of the company.

Acuite believes that SFPL's business and credit profile will be supported by an established presence in its area of operations and expectation of continued support from the existing investors over the near term.

Weaknesses

- Declining AUM coupled with asset quality and profitability pressures

The Company commenced its operations in 2007 in the state of Bihar. The company gradually expanded to 4 other states Uttar Pradesh, Haryana, Jharkhand and Punjab. Of the total AUM, Bihar accounts for ~56% of the AUM and the balance is distributed among the four states. Over the years, the company built an Asset under Management (AUM)

of Rs. Rs.517.65 Cr as on March 31, 2019, which declined to Rs. 304.69 Cr as on March 31, 2020 and further to Rs. 287.01 Cr as on June 30, 2020.

The decline in the portfolio during FY2020 is attributable to two factors. Firstly, SFPL experienced a sudden rise in delinquencies in the state of Uttar Pradesh, which prompted the company to relook into their risk management practices, especially in the UP region. Secondly, the company focused on technology initiatives to streamline its operations, which was the key focus area. Thereby a slowdown in the pace of disbursements. Consequently, SFPL reduced its exposure in UP from ~21% of the AUM (Rs. 107 Cr as on March 31, 2019 to ~10% of the AUM (Rs. 31 Cr as on March 31, 2020). It is pertinent to mention that of the total GNPA of Rs. 12.17 Cr as on March 31, 2020, UP accounts for Rs. 6.84 Cr (i.e. 56% of the total GNPA). Besides the above factors in FY2020, the disbursement during Q1FY2021 was also impacted due to challenges in raising liquidity.

The resultant impact of a slowdown in disbursement was shrinkage in AUM, which coupled with higher credit costs also impacted the profitability. (Return on Average Assets (ROAA) declined from 2.04% as on March 31, 2019 to 0.55% as on March 31, 2020).

The MFI lending segment entails providing loans to the lower economic strata of the society. The impact has been more severe on the lower economic strata of the society who are already vulnerable. In such a situation, even the lenders to these MFIs have started adopting a cautious and stringent approach to fresh exposures. While SFPL has been in discussions with its existing and fresh lenders for raising long term debt, its ability to raise adequate long term funding commensurate with its near term business requirements (i.e. disbursements and Debt Servicing obligations) will be tested.

Acuite believes that going forward the ability of the company to maintain growth in its AUM against the backdrop of a subdued economic scenario while improving its asset quality and profitability will be a key rating sensitivity.

• Geographically Concentrated portfolio

SFPL commenced its operations in 2007 in the state of Bihar. SFPL gradually expanded to other states in Northern and Eastern India, namely, Haryana, Uttar Pradesh, Jharkhand and Punjab. As on March 31, 2020, SFPL has a network of 101 branches across 59 districts. While SFPL has expanded to other geographies, Bihar constituted ~56% of the total AUM as on March 31, 2020 as compared to 49% of the total AUM as on March 31, 2019; followed by Jharkhand (13.50%), Haryana (11.26%), UP (10.22%) and Punjab (9.22%). The concentration of portfolio has increased in top three districts from ~26% of the AUM as on March 31, 2019 to ~31% of the AUM as on March 31, 2020. Thus, the company's performance is expected to remain exposed to the competitive landscape in these regions and the occurrence of events such as natural calamities, which may adversely impact the credit profile of the borrowers. The impact of Covid-19 may also impair the scalability of business operations, which has currently disrupted collections and disbursement processes.

Acuite believes that geographical concentration coupled with shrinking AUM will continue to weigh on the company's credit profile.

Liquidity Position: Stretched

The liquidity buffers of the company are currently subdued. As on September 30, 2020, the company had unencumbered cash balance of ~Rs. 28 Cr against debt servicing obligations (interest + principal repayments) of ~Rs.100 Cr for the third quarter of the current fiscal. SFPL had initially granted moratorium to most of its borrowers. The monthly collections for August 2020 and September 2020 are Rs. 15.90 Cr and Rs. 21.50 Cr respectively. Against this backdrop, SFPL will be required to raise additional funding by way equity and/or long term debt to meet its debt servicing obligations. The additional equity infusion from private equity investors of ~Rs. 43 Cr is expected in the Q3 of the current fiscal. SFPL is also exploring raising long term debt from some of its existing and new lenders. The ability to raise fresh funding from existing and new lenders will be critical in maintaining liquidity profile.

Rating Sensitivities

- Significant improvement in liquidity buffers
- Growth in AUM while maintaining asset quality
- Stance of the key investors in infusing equity

Material Covenants

SFPL is subject to covenants stipulated by its lenders/investors in respect of various parameters. As per confirmation received from the client, vide mail dated October 15, 2020. 'The company is complying with the material covenants and terms and conditions stipulated by the lenders/investors.'

Outlook: Negative

Acuité believes that SFPL's credit profile will be influenced by its significant near term obligations vis-a-vis available liquidity buffers and near term challenges in scaling up its operations to an optimal level. The outlook may be revised to 'Stable' if the company is able to demonstrate a significant improvement in its liquidity buffers coupled with growth in AUM while improving its profitability and asset quality. The rating may be downgraded if the company faces challenges in raising fresh equity or long term debt funding commensurate with its near term business requirements. Any further deterioration in AUM or profitability/asset quality will also impart a negative bias to the rating.

About the Rated Entity - Key Financials

	Unit	FY20 Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	327.02	514.56
Total Income*	Rs. Cr.	46.15	58.97
PAT	Rs. Cr.	2.30	9.47
Net Worth	(%)	66.37	63.69
Return on Average Assets (RoAA)	(%)	0.55	2.04
Return on Average Net Worth (RoNW)	(%)	3.54	15.97
Debt/Equity	Times	3.75	6.76
Gross NPA	Times	3.99	1.89
Net NPA	Times	1.22	0.72

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

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

None

Any other information

Not Applicable

Applicable Criteria

- Rating of Non-Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

None

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Non-Convertible Debentures	21.12.2017	13.45%	22.12.2022	10.00	ACUITE BBB-/Negative (Assigned)

Non-Convertible Debentures	30.07.2018	12.72%	30.07.2023	10.00	ACUITE BBB-/Negative (Assigned)
Non-Convertible Debentures	03.11.2016	14.25%	30.11.2020	23.50	ACUITE BBB-/Negative (Assigned)
Proposed Non-Convertible Debentures	NA	NA	NA	10.00	ACUITE BBB-/Negative (Assigned)

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About Acuité Ratings & Research:

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