

Press Release

Sonata Finance Private Limited

February 11, 2021

Rating Assigned



Total Facilities Rated	Rs. 305.00 Cr.
Total Bank Facilities Rated	Rs. 250.00 Cr.
Long Term Rating	ACUITE BBB+/ Stable (Assigned)
Proposed NCD	Rs. 55.00 Cr.
Long Term Rating	ACUITE BBB+/ Stable (Assigned)

*Refer annexure for details

Rating Rationale

Acuite has assigned a long term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) on the Rs. 250.00 Cr. bank facilities of Sonata Finance Private Limited. The outlook is '**Stable**'.

Acuite has assigned the long term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) on the Rs. 55.00 Cr. proposed non-convertible debentures of Sonata Finance Private Limited (SFPL). The outlook is '**Stable**'.

The rating factors in SFPL's established presence in its areas of operations, experienced management and institutional support and representation on board of SFPL by them. SFPL has a healthy capital structure with Capital Adequacy Ratio (CAR) of ~26.70 percent as on September 30, 2020 and has demonstrated the ability to attract funding from banks and financial institutions. The gearing remains at moderate level at 4.33 times as on September 30, 2020 and has seen moderate improvements from 4.49 times as on March 31, 2020 and 4.69 times as on March 31, 2019. Acuite understands that improvement in capitalization buffers is aided by healthy internal accruals coupled with moderation in AUM.

These strengths are partially offset by relatively improving yet sub-optimal levels of disbursements at ~35 percent, ~40 percent and ~71 percent for the months of October, November and December 2020, based on average monthly disbursements. The collection levels are, however, growing up every month and are inching close to the pre-covid levels. The rating also considers the moderate geographical concentration in Uttar Pradesh, Bihar and Madhya Pradesh comprising ~91 percent of the AUM as on November 30, 2020. The rating is also constrained by inherent risks associated with lending in this segment.

About SFPL

Uttar Pradesh based Sonata Finance Private Limited (SFPL) is an NBFC- MFI engaged in providing microcredit to women borrowers via Joint Liability Group (JLG) model. SFPL also provides individual, utility and sanitation financing. SFPL commenced its operations in 2006 and is promoted by Mr. Anup Kumar Singh. Mr. Anup Kumar Singh has over two decades of experience in micro finance segment. SFPL operates through its network of 448 branches spread across 9 states as on November 30, 2020.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management supported by diverse and reputed investors**

SFPL commenced its microfinance operations in 2006, extending micro-credit to women borrowers engaged in income generating activities under Joint Liability Group (JLG) model. SFPL commenced its operations in Uttar Pradesh and over the years has expanded its presence in other states namely Bihar,

Madhya Pradesh, Haryana, Rajasthan, Uttarakhand, Punjab, Maharashtra and Jharkhand. The company has a presence in 131 districts with a network of 448 branches with an asset under management (AUM) of Rs. 1,276.99 Cr. as on November 30, 2020.

SFPL is promoted by Mr. Anup Kumar Singh (MD & CEO), who has an experience of over two decades in micro finance segment. Mr. Anup Kumar Singh has been able to bring on board marquee institutional investors like Caspian Impact Investment, SIDBI, Creation Investments Social Ventures, India Financial Inclusion Fund, Michael & Susan Dell Foundation, Societe De Promotion Et De Participation Pour La Cooperation Economique, Triodos amongst others with representation on the board. Mr. Anup Kumar Singh is supported by seasoned and experienced professionals in managing the operations of the company.

SFPL's AUM as on November 30, 2020 stood at Rs. 1,276.99 Cr. (Rs. 1,750.26 Cr. as March 31, 2020 and Rs. 1,441.08 Cr. as on March 31, 2019) The AUM comprised of owned portfolio of Rs. 986.28 Cr. (~77 percent of AUM) and off-book exposure of Rs. 290.71 Cr. (~23 percent of AUM) as on November 30, 2020. The company takes off-book exposure through Business Correspondence model, Direct Assignment and Pass Through Certificates. SFPL is in talks to commence Co-lending model.

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.

- **Adequate financial position with diversified funding mix**

SFPL's networth stood at Rs. 279.66 Cr. as on September 30, 2020 and reported a healthy capital adequacy ratio (CAR) of 26.70 percent comprising Tier 1 capital at 20.29 percent and Tier II capital at 6.41 percent. The company's leverage indicators stood at 4.33 times as on September 30, 2020 (4.49 times as on March 31, 2020 and 4.69 times as on March 31, 2019). SFPL's capital adequacy ratio (CAR) improved to 26.70 percent as on September 30, 2020 as compared to 23.07 percent as on March 31, 2020. Further, healthy internal accruals coupled with moderation in AUM improved CAR to 28.95 percent as on November 30, 2020. SFPL's total debt stood at Rs. 1,212.28 Cr. as on September 30, 2020. The company has a strong lender profile comprising Banks and Financial Institutions, with total debt of Rs. 1,212.28 Cr. outstanding as on September 30, 2020. SFPL's borrowing profile comprised Term loans (~59 percent), Sub-debt (~8 percent), ECB's (~14 percent) and NCD's (~19 percent) as on September 30, 2020. The ability to raise debt by microfinance companies remains challenging due to a very selective and cautious approach adopted by Banks and NBFC/FIs. However, SFPL has demonstrated access to funding from both banks and large NBFC/FIs.

Acuite believes, going forward, the ability of the company to mobilise additional lower cost funding through debt/ sub debt and its ability to deploy the funds profitably will be a key rating monitorable.

Weaknesses

- **Moderate geographic concentration; susceptibility to risks inherent to microfinance segment**

SFPL's operations are moderately concentrated with Uttar Pradesh accounting for 50 per cent of its AUM as on November 30, 2020 followed by Bihar at 24 percent and Madhya Pradesh at 17 percent. While the company is gradually expanding into other neighboring states, there is an overall concentration of the lending business with the above three states comprising ~90 percent of AUM. Generally, the risk profile of a microfinance company with a geographically diversified portfolio is more resilient compared to that of an entity with a geographically concentrated portfolio. The company's performance is expected to remain exposed to the occurrence of events such as natural calamities, which may adversely impact the credit profile of the borrowers. Besides geography, the company will be exposed to any changes in the regulatory framework. The current lockdowns and economic disruptions may slow down the process of scaling up of operations, thereby, affecting the return metrics. SFPL has demonstrated healthy asset quality in the past with low Gross Non-Performing Assets (GNPA) at 0.89 percent as on March 31, 2020 (1.75 percent as on November 30, 2020), the company has made adequate provisions in case of any increase in slippages. However, rise in delinquency is expected due to impact of COVID-19 as the credit profiles of some of the borrowers could be impaired for a much longer time.

Acuite believes that containing additional slippages while maintaining the growth in the loan portfolio will be key rating sensitivity.

Rating Sensitivity

- Impact of natural calamities like Covid-19 on ongoing operations
- Movement in collection efficiency and asset quality
- Movement in liquidity buffers
- Movement in profitability metric
- Changes in regulatory environment

Material Covenants

SFPL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality, among others. As per confirmation received from the client the company is adhering to all terms and conditions stipulated as covenants by all its lenders/investors.

Liquidity: Adequate

SFPL's overall liquidity profile remains adequate with no negative cumulative mismatches in near to medium term as per ALM dated September 30, 2020. The company has maintained unencumbered cash and bank balances of ~Rs. 306.87 Cr. as on September 30, 2020. The borrowing profile of SFPL of Rs. 1,212.28 Cr. as on September 30, 2020 comprised Term loans (~59 percent), Sub-debt (~8 percent), ECB's (~14 percent) and NCD's (~19 percent) from Banks and NBFC/FIs. As per ALM statement, the company has debt servicing obligations of Rs. ~600 Cr. over the period of one year. The company has undrawn sanctions of around Rs. 124 Cr. and is in talks in raising additional fundings from banks. SFPL's total collections during October, November and December 2020 were around Rs. 128.84 Cr., Rs. 115.64 Cr. and Rs. 134.04 Cr. respectively.

Outlook: Stable

Acuite believes that the SFPL will maintain a 'Stable' outlook over the medium term supported by its established presence in the microfinance segment and capital structure. The outlook may be revised to 'Positive' in case of significant and sustainable growth in its AUM while maintaining profitability, asset quality and capitalization indicators. Conversely, the outlook may be revised to 'Negative' in case of challenges in attaining optimal collection efficiency or significantly higher than expected pressure on asset quality or profitability margins.

About the Rated Entity - Key Financials

Particulars	Unit	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	1522.62	1483.92
Total Income*	Rs. Cr.	163.83	139.47
PAT	Rs. Cr.	14.09	32.99
Networth	Rs. Cr.	272.69	256.85
Return on Average Assets (RoAA)	(%)	0.94	2.34
Return on Net Worth (RoNW)	(%)	5.32	16.46
Total Debt/Tangible Net Worth (Gearing)	Times	4.49	4.69
Gross NPA's	(%)	0.89	3.34
Net NPA's	(%)	0.19	2.70

* Total income equals to Net interest income plus other income

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Non-Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.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 Facilities	Bank	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (Rs. Cr.)	Ratings/ Outlook
Term Loan	Federal Bank	21-10-2020	10.85%	31-10-2023	32.10	ACUITE BBB+/Stable (Assigned)
Term Loan	Utkarsh Small Finance Bank	29-09-2020	12.60%	30-09-2022	19.20	ACUITE BBB+/Stable (Assigned)
Proposed Bank Facility	-	-	-	-	198.70	ACUITE BBB+/Stable (Assigned)
Proposed Non-Convertible Debentures	-	Not Applicable	Not Applicable	Not Applicable	55.00	ACUITE BBB+/Stable (Assigned)

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About Acuité Ratings & Research:

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