Press Release

Sonata Finance Private Limited

October 04, 2021

Rating Assigned, Reaffirmed

Total Facilities Rated	Rs. 445.00 Cr.
Total Bank Facilities Rated	Rs. 250.00 Cr.
Long Term Rating	ACUITE BBB+/ Stable (Reaffirmed)
Non-Convertible Debentures	Rs. 55.00 Cr.
Long Term Rating	ACUITE BBB+/ Stable (Reaffirmed)
Non-Convertible Debentures	Rs. 115.00 Cr.
Long Term Rating	ACUITE BBB+/ Stable (Assigned)
Principal Protected Market Linked Debentures	Rs. 25.00 Cr.
Long Term Rating	ACUITE PP-MLD BBB+/ Stable (Assigned)

*Refer annexure for details

Rating Rationale

Acuité has reaffirmed the 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 (SFPL). The outlook is '**Stable**'.

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

Acuité has assigned a long term rating of **'ACUITE BBB+' (read as ACUITE triple B plus**) to Rs. 115.00 crore non-convertible debentures of Sonata Finance Private Limited. The outlook is **'Stable'**.

Further, Acuité has assigned the long term rating of **'ACUITE PP-MLD BBB+' (read as ACUITE Principal Protected Market Linked Debentures triple B plus)** to the Rs. 25.00 cr. proposed principal protected market linked non-convertible debentures of Sonata Finance Private Limited. The outlook is **'Stable'**.

The rating factors in SFPL's track record of operations, experienced management & institutional support. SFPL has a comfortable capital structure with Capital Adequacy Ratio (CAR) of ~24.24 percent and gearing of 3.94 times as on June 30, 2021. The rating further factors in SFPL's diverse lender base and demonstrated ability to attract funding from banks and financial institutions. Acuité understands that improvement in capitalization buffers is aided by healthy internal accruals coupled with moderation in AUM during the period. SFPL has reported uptick in disbursement in Q2 FY2022 after slowdown on account of pandemic induced lockdowns in Q1 FY2022.

These strengths are partially offset by moderation in asset quality with on-time portfolio at 65.75 percent and GNPA at 10.77 percent as on June 30, 2021 which have impacted the profitability metrics. While the company has reported improvement in monthly collection efficiencies since June 21, sustained collections and asset quality improvement in a key monitorable. On-time portfolio saw an improvement in the month of August 2021 at 72.38 percent vis a vis 65.75 percent as on June 30, 2021. The rating also considers the moderate geographical concentration in states of Uttar Pradesh, Bihar and Madhya Pradesh which comprised ~91 percent of the AUM as on June 30, 2021. Further, the inherent risks of microfinance industry including exposure to marginalised borrowers have been exacerbated by localised lockdowns and economic disruptions in the wake of second wave of Covid-19. Going forward, the ability of the company to scale up its operations and movement of delinquencies across different time buckets and resultant impact on profitability would remain key monitorables.

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 450 branches spread across 9 states as on June 30, 2021.

Analytical Approach

Acuité 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 132 districts with a network of 450 branches with an asset under management (AUM) of Rs. 1,360.11 Cr. as on June 30, 2021.

  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 instrumental in raising funds from 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 June 30, 2021 stood at Rs. 1,360.11 Cr. (Rs. 1,494.19 Cr. as March 31, 2021 and Rs. 1,768.06 Cr. as on March 31, 2020) The AUM comprised of owned portfolio of Rs. 1,035.56 Cr. (~76 percent of AUM) and off-book exposure of Rs. 324.55 Cr. (~24 percent of AUM) as on June 30, 2021. 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.

- **Comfortable capital structure with diversified funding mix**

  SFPL's networth stood at Rs. 279.79 Cr. as on June 30, 2021 and reported a healthy capital adequacy ratio (CAR) of 24.24 percent comprising Tier 1 capital at 21.92 percent and Tier II capital at 2.32 percent. The company's leverage indicators stood at 3.94 times as on June 30, 2021 (4.23 times as on March 31, 2021 and 4.49 times as on March 31, 2020). SFPL's capital adequacy ratio (CAR) improved to 24.24 percent as on June 30, 2021 as compared to 22.05 percent as on March 31, 2021 on account of healthy internal accruals coupled with moderation in AUM. The company has a strong lender profile comprising Banks and Financial Institutions, with total debt of Rs. 1,079.57 Cr. as on June 30, 2021. SFPL's borrowing profile comprised Term loans (~52 percent), Sub-debt (~7 percent), ECB's (~15 percent) and NCD's (~26 percent) as on June 30, 2021. 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.

  Acuité 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**

The MFI lending segment entails providing loans to the lower economic strata of the society. The inherent risks of microfinance industry including exposure to marginalised borrowers have been exacerbated by localised lockdowns and economic disruptions in the wake of second wave of Covid-19. The intermittent lockdowns and relaxations have resulted in volatility in collection efficiency. Most of the decisions regarding lockdowns are currently taken at the state government and local authority level.

SFPL's operations are moderately concentrated with Uttar Pradesh accounting for 49 per cent of its AUM as on June 30, 2021 followed by Bihar at 24 percent and Madhya Pradesh at 19 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 ~91 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.

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

- **Moderation in asset quality and profitability metrics**

While SFPL has demonstrated healthy asset quality in the past with low Gross Non-Performing Assets (GNPA), the company's asset quality has deteriorated on account of Covid-19 induced lockdowns and disruptions. During FY2021 and Q1 FY2022 SFPL has witnessed significant deterioration in asset quality with on-time portfolio declining to 65.75 percent and GNPA at 10.77 percent as on June 30, 2021 as compared to on-time portfolio of 86.15 percent and GNPA of 6.15 percent as on March 31, 2021. While Acuite takes cognizance of asset quality stress in the MFI sector due to ongoing pandemic, some MFIs have been more affected due to diverse factors like geographic presence and disruption in economic activities therein, customer profile, rural urban mix etc. With the lifting of lockdowns, the on-time portfolio saw an improvement in the month of August 2021 at 72.38 percent vis a vis 65.75 percent as on June 30, 2021. SFPL's collection efficiency also improved to ~93 percent and ~96 percent for the month of July and August 2021 respectively from 68.67% as on May 31, 2021.

The current lockdowns and economic disruptions have slowed down the process of scaling up of operations, thereby, affecting the return metrics. SPFL's profitability metrices were subdued marked by Return on Average Assets (RoAA) at 0.29 percent as on March 31, 2021 (0.94 percent as on March 31, 2020). Decline in Net Interest Margin (NIM) was also seen at 7.81 percent as on March 31, 2021 as compared to 11.80 percent as on March 31, 2020.

Acuité believes that SFPL's ability to improve its overall collection efficiency while containing elevated stress in asset quality will be key monitorable.

Rating Sensitivity

- Continued investor support
- Movement in collection efficiency and asset quality
- Movement in profitability metrics
- Movement in liquidity buffers
- 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 June 30, 2021. The company has maintained unencumbered cash and bank balances of ~Rs. 361.25 Cr. as on June 30, 2021. The borrowing profile of SFPL of Rs. 1,079.57 Cr. as on June 30, 2021 comprised Term loans (~52 percent), Sub-debt (~7 percent), ECB's (~15 percent) and NCD's (~26 percent) from Banks and NBFC/FIs. As per ALM statement, the company has debt servicing obligations of Rs. ~625 Cr. over the period of one year. The company has undrawn sanctions of around Rs. 358 Cr. and is in talks in raising additional fundings from banks. SFPL's total collections during June, July and August 2021 were around Rs. 119 Cr., Rs. 118 Cr. and Rs. 121 Cr. respectively.

Outlook: Stable

Acuité 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	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	1491.55	1522.62
Total Income*	Rs. Cr.	111.91	163.83
PAT	Rs. Cr.	4.39	14.09
Networth	Rs. Cr.	279.14	272.69
Return on Average Assets (RoAA)	(%)	0.29	0.94
Return on Net Worth (RoNW)	(%)	1.59	5.32
Total Debt/Tangible Net Worth (Gearing)	Times	4.23	4.49
Gross NPA's	(%)	6.15	0.98
Net NPA's	(%)	1.17	0.31

** 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)

Date	**Name of Instrument / Facilities**	**Term**	**Amount (Rs. Cr.)**	**Ratings/Outlook**
11-Feb-2021	Term Loan	Long Term	32.10	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	19.20	ACUITE BBB+/Stable (Assigned)
	Proposed Bank Facility	Long Term	198.70	ACUITE BBB+/Stable (Assigned)
	Proposed Non-Convertible Debentures	Long Term	55.00	ACUITE BBB+/Stable (Assigned)

***Annexure – Details of instruments rated**

Lender's Name	ISIN	Name of Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (Rs. Cr.)	Ratings/ Outlook
Not Applicable	-	Proposed Non-Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB+/Stable (Reaffirmed)
Not Applicable	INE509M 07246	Secured Redeemable Non-Convertible Debentures	18-03-2021	11.63%	18-03-2024	22.00	ACUITE BBB+/Stable (Reaffirmed)
Not Applicable	INE509M 07253	Secured Redeemable Non-Convertible Debentures	25-03-2021	11.63%	25-03-2025	30.00	ACUITE BBB+/Stable (Reaffirmed)
Not Applicable	-	Proposed Non-Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	115.00	ACUITE BBB+/Stable (Assigned)
Not Applicable	-	Proposed PP-MLD	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE PP-MLD BBB+/Stable (Assigned)
Federal Bank	-	Term Loan	21-10-2020	10.85%	31-10-2023	27.54	ACUITE BBB+/Stable (Reaffirmed)
Utkarsh Small Finance Bank	-	Term Loan	29-09-2020	12.60%	30-09-2022	12.50	ACUITE BBB+/Stable (Reaffirmed)
Not Applicable	-	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	209.96	ACUITE BBB+/Stable (Reaffirmed)

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About Acuité Ratings & Research:
Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 8,850 credit 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.