

## Press Release

### Society for Social Development

December 03, 2020



#### Rating Assigned

<b>Total Bank Facilities Rated*</b>	Rs. 15.00 Cr.
<b>Long Term Rating</b>	ACUITE BB-/ Outlook: Stable (Assigned)

\* Refer Annexure for details

#### Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) on the Rs. 15 crore bank facilities of Society for Social Development (SOSOD). The outlook is '**Stable**'.

The rating in respect of the instruments rated factors in the strengths derived from the extensive industry experience of promoter, Mr. George Joseph(Secretary, Chief – Functionary) having more than two decades of experience in microfinance and social development sector. The rating also considers adequate credit appraisal processes and monitoring mechanisms that have helped SOSOD to maintain sound asset quality. These strengths are partially offset due to the low scale of operations and high geographical concentration risks. The rating is also constrained by moderate IT Systems and audit mechanism.

#### About the company

Tamil Nadu based, Society for Social Development (SOSOD) is a co-operative society registered in the year 1990, under the Tamil Nadu Societies Act 1965 and governed by its rules and regulations. It is also registered under the Foreign Contribution Regulation Act (FCRA). Initially, the Society was established to undertake various social projects like water conservation, providing sustainable construction technology, training and consultancy programs, and rehabilitation of tsunami-affected people. In 2000, SOSOD started working as NGO-MFI towards creating health awareness, skill-oriented training, self-help group (SHG) formation and Joint Liability Group Model (JLG). As of June 30, 2020, SOSOD has operations two districts with a network of four branches.

#### Analytical Approach

Acuité has considered the standalone financial and business risk profile of SOSOD to arrive at the rating.

#### Key Rating Drivers

##### Strengths

- **Established track record and experienced Management**

SOSOD started its operations in the year 1990 working towards social development programs to rural areas. Since 2000, they are engaged in providing microfinance loans to individuals for income generation purpose. The society has been in the operations for around three decades and over the years has established its presence in two districts of Tamil Nadu, namely, Kanyakumari and Tirunelveli) with a network of four branches as on June 30, 2020. The operations of the company are overseen by Mr George Joseph, Secretary and Founder of the organization has more than two decades of experience in microfinance and priority sector lending. The promoter is supported by other two board members having experience of more than a decade in the field of microfinance, social work etc.

Acuité believes that SOSOD will benefit from its experienced management team and established track record of operations to expand its operations and grow its loan portfolio.

- **Sound Asset Quality**

SOSOD's loan portfolio grew to Rs 7.52 crore as on March 31, 2020 as against Rs 5.64 crore as on March 31,

2019. It has a sound asset quality reflected in NIL Non-Performing Assets (NPAs) as on March 31, 2020 and March 31, 2019. Further, it demonstrated significant improvement in collection efficiency from 7 per cent in April, 2020 to ~87 per cent in October, 2020.

Going forward, Acuité expects SOSOD to benefit from its sound asset quality.

## Weaknesses

- **Modest scale of operations and high geographic concentration**

SOSOD commenced its operations in 1990, over the years the society's operations have remained modest. It has an outstanding loan portfolio of Rs. 7.53 Cr as on March 31, 2020 as compared to Rs 5.64 crore as on March 31, 2019. SOSOD's portfolio is exposed to high geographical concentration risk, as 100 per cent of the total portfolio is concentrated in the state of Tamil Nadu, spread across two districts & four branches. Generally, the risk profile of NBFCs with a geographically diversified portfolio is more resilient compared to that of entity with a geographically concentrated portfolio.

Acuité believes that modest scale of operations, coupled with geographic concentration in its portfolio, will continue to weigh on the company's credit profile over the near to medium term.

## Liquidity Position: Adequate

SOSOD's liquidity buffers primarily depend on its cash inflows (collections from clients, drawdowns from borrowings and equity inflows) vis. a vis. the cash outflows (disbursements, debt servicing commitments, operating expenses). The cash collections from borrowers were impacted but improving because of moratorium extended by the company to its borrowers which is in line with general practice followed by other Financial Institutions. The collections for the month of October, 2020 improved to 87%. The company's ability to raise funds is key monitorable in assessing the liquidity position. As the company has extended the moratorium to its borrowers, similarly they had availed Moratorium from most of its borrowers. SOSOD's scheduled monthly collections range between Rs. 0.55 Crore to Rs. 1 Crore against which it has monthly debt service obligations of around Rs. 0.30 Crore.

## Rating Sensitivities

- Growth in Loan portfolio
- Asset Quality & Collection efficiency
- Scaling up operations

## Material Covenants

SOSOD 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 client vide mail dated November 26, 2020. 'SOSOD is adhering to all terms and conditions stipulated as covenants by all its lenders/investors.'

## Outlook: Stable

Acuité believes that SOSOD will maintain a 'Stable' outlook on account of its established track record of operations and experienced management. The outlook may be revised to 'Positive' in case the company is able to scale up its operations and geographically diversify while maintaining their asset quality. Conversely, the outlook may be revised to 'Negative' in case of continued growth challenges or asset quality pressures.

## About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	9.03	6.41
Total Income (Net of Interest Expense)	Rs. Cr.	0.68	0.66
PAT	Rs. Cr.	0.10	0.04
Networth	Rs. Cr.	1.67	1.57
Return on Average Assets (RoAA)	(%)	1.27	0.72

Return on Net Worth (RoNW)	(%)	6.02	2.71
Total Debt/Net Worth (Gearing)	Times	4.38	3.06
Gross NPA's	(%)	0.00	0.00
Net NPA's	(%)	0.00	0.00

**Status of non-cooperation with previous CRA (if applicable):** Brickworks vide its press release dated October 06, 2020 has stated, "on account of non-availability of information and lack of co-operation from the company, Brickwork Rating has reaffirmed and migrated the long term rating of **BWR B/Stable Issuer not Cooperating**"

#### 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 (Rs. Cr.)	Ratings/Outlook
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BB-/Stable (Assigned)

#### Contacts

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#### About Acuité Ratings & Research:

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