

Press Release

Svasti Microfinance Private Limited

March 28, 2022

Rating Reaffirmed



| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|------------------------------------|------------------|-----------------------------------|-------------------|
| Bank Loan Ratings | 80.00 | ACUITE BBB+ Stable Reaffirmed | - |
| Total Outstanding Quantum (Rs. Cr) | 80.00 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) to the Rs. 80.00 crore bank facilities of Svasti Microfinance Private Limited (SMPL). The outlook is '**Stable**'.

The rating continues to factor SMPL's long standing presence in microfinance sector along with comfortable capitalization levels supported by equity infusions at regular intervals. CRAR and gearing stood at 31.28 percent in H1FY2022 and 2.90 times as on December 31, 2021. The ratings further factor in expectations of capital raising in the near to medium term which shall support the growth momentum going forward. During 9MFY22, the company disbursed loans amounting to Rs.218 crore Vis a Vis Rs.139 crore during FY21 [P.Y.: Rs.275 crore]. Consequently, AUM increased to Rs. 456.59 crore as on December 31, 2021 from Rs. 418.22 crore as on March 31, 2021 and Rs. 425.21 crore as on March 31, 2020. SMPL also benefits from a diversified resource profile and adequate liquidity buffers with unencumbered cash balance of 51.36 Cr as on December 31, 2021 (constituting 9.28% of total assets).

The rating is however, constrained by modest scale of operations, declining profitability and geographical concentration in the state of Maharashtra (~74.56 percent of AUM as on March 31, 2021). The rating is also constrained by its moderate asset quality with on time dpd being at 89.09 percent as on November 30, 2021. Given the pool of restructured assets and softer delinquencies, any further deterioration in asset quality is expected to further impact profitability. Going forward, Acuite believes that the company's ability to raise capital, profitably grow its loan portfolio while containing credit risks will be key monitorables

About the company

Established in 2008, as Svasti Foundation, Mumbai based Svasti Microfinance Private Limited (SMPL) is a NBFC-MFI promoted by Mr. Arunkumar Padmanabhan and Mr. Narayanan Subramanian. In March 2010, Svasti Foundation bought over an existing NBFC, Easy Housing and Finance Limited and renamed it as Svasti Microfinance Private Limited. The microfinance business was transitioned from Svasti Foundation to SMPL in October 2010. SMPL is primarily engaged in extending microfinance to women borrowers through Joint Liability Model.

SMPL operates through a network of 102 branches spread across states of Maharashtra,

Madhya Pradesh, Gujarat and Uttar Pradesh and has a borrower base of 2,13,632 borrowers as on December 31, 2021.

Analytical Approach

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

Key Rating Drivers

Strength

- **Experienced management and support of marquee investors**

SMPL, a Mumbai based NBFC-MFI is promoted by Mr. Arunkumar Padmanabhan (Co-Founder & CEO) and Mr. Narayanan Subramanian (Co-Founder, CFO and CIO). Mr. Arun is responsible for rollout of the branches, products and services and to scale up the business volumes in line with Svasti's business plans. Mr. Arun also handles the Human Resources function. Mr. Narayanan is responsible for operations process design and supporting it with technology initiatives. He also handles the Finance, Accounts, Operations Audit and Training Design. The promoters have demonstrated their resource raising ability by raising funds from reputed and diverse set of investors at regular intervals which includes Andaman Group, Poonawala Group, Nordic Microfinance Initiative amongst others.

The company's board comprises of 5 directors of which Mr. M.N Venkatesan and Mr. Ramanathan Annamalai are independent directors who have extensive experience in banking and microfinance lending. Mrs. Smriti Chandra of Nordic Microfinance Initiative Fund is nominee directors on Board.

Acuité believes that the company's growth prospects will be supported by the promoter's experience in the industry along with their demonstrated track record of resource raising ability. Further, expectations of capital raising in the near to medium term shall support the growth momentum going forward.

- **Comfortable resources raising ability supporting portfolio expansion**

The capitalisation profile is supported by regular capital infusions by the promoters. The company has raised around Rs. 122 crore since inception by the support from its promoters. The company's capital structure is supported by a Networth of Rs. 136.46 crore, total debt of Rs. 395.45 Cr and resultant gearing of 2.90 times as on December 31, 2021. The company plans to raise Rs. 100 crore by Q2-FY2023, this infusion will be done by new investors. However, the dilution of the shares will happen equally. In addition to this, they further plan to issue NCDs of Rs. 45 crore by March 2022. Moreover, there are sanctions in pipeline amounting to Rs. 394.5 crore from various PSUs, Private Banks and NBFCs, where incremental cost of borrowing is at 12.5 percent. The capitalization levels of SMPL stood comfortable, with CAR being at 31.28 percent in H1FY2022 as compared to 33.83 percent as on March 31, 2021 and the same stood at 26.95 percent as on March 31, 2020. CAR majorly comprises of Tier I capital. Tier II capital comprised of Sub-ordinate debt from IDFC First Bank. The company is in talks to raise Rs. 25 crore as Tier II capital by the end of FY2022.

Weakness

- **Moderate Asset Quality and Profitability**

SMPL's AUM has grown as a result of branch expansion to Rs. 456.59 crore as on December 31, 2021 from Rs. 418.22 crore as on March 31, 2021 and Rs. 425.21 crore as on March 31, 2020. The overall asset quality of the company stood moderate with on time being at 90.83 percent as on December 31, 2021 as compared to 89.67 percent in March 31, 2021 and 98.67 percent in March 31, 2020. Moderation in Gross NPA level was noticed at 1.45 percent in FY2021 as compared to 0.56 percent in FY2020. This was on account of lower disbursements due to pandemic situation. The company had disbursed Rs. 155.89 crore in FY2021 whereas, in 9M-

FY2022 disbursements improved to Rs. 219.26 crore. Further, GNPA level as on November 2021 stood at 1.65 percent, deterioration was on account of third wave of Covid-19 led pandemic. Net NPA were nil on account of provisions made by the company. The company has already done provisioning of Rs. 2 crore during 9M-FY2022, and further it plans to provide additional Rs. 2 crore by the end of March 31, 2022. The company has restructured around Rs. 80 crore of the loan portfolio outstanding as on December 31, 2021.

The company saw an increase in its Net Interest Income to Rs. 35.13 crore for FY 2021 from Rs. 27.83 crore for FY 2020. NII for 9 months ended December 31, 2021 stood at Rs. 27.35 crore. However, its profitability declined in FY2021, due to higher provisioning as a result of weak asset quality. PAT stood at Rs. 2.03 crore in FY2021 as against Rs. 8.77 crore in FY2020. PAT for 9 months ended December 31, 2021 stood at Rs. 1.44 crore. This was reflected in the Return on Average Assets (RoAA) which stood at 0.47 percent as on March 31, 2021 against 2.71 percent as on March 31, 2020. Annualized RoAA as on December 31, 2021 stood at 0.37 percent. Given the pool of restructured assets and softer delinquencies, any further deterioration in asset quality is expected to further impact profitability going forward.

Acuité believes that constraining additional slippages while maintaining profitability will be key monitorables.

- **Risk inherent to microfinance segment**

The activities of microfinance companies, like SMPL are exposed to geographical concentration risks. SMPL has presence in four states with concentration in Maharashtra (~74.56 percent of the overall portfolio) and Madhya Pradesh (~11.97 percent) as on March 31, 2021. It has 102 branches located over 49 districts as on December 31, 2021 as against 73 branches over 32 districts as on March 31, 2021. This exposes the company to high geographical concentration risk. Thus, the company's performance is expected to remain exposed to competitive landscape in these regions and 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 competition and any changes in the regulatory framework.

Going forward, Acuité believes company's plans grow its presence and further diversify its operations geographically will be important from a credit perspective.

Rating Sensitivity

- Ability to raise capital
- Movement in collection efficiency and asset quality
- Movement in liquidity buffers
- Movement in profitability metric
- Changes in the regulatory environment

Material Covenants

SMPL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality, among others.

Liquidity Position: Adequate

SMPL's overall liquidity profile remains adequate with no negative cumulative mis-matches in near to medium term as per ALM dated September 30, 2021. SMPL has monthly debt obligations of around ~Rs. 19 crore, along with operating expense of ~Rs. 3.70 crore vis a vis monthly collections of ~Rs. 25.92 crore. Overall Collection Efficiency for Standard Assets stood at an average of 34.24 percent for 6 months ended December 31, 2021, whereas, collection efficiency for current month due stood at an average of 90.75 percent for 6 months ended December 31, 2021. The company has unencumbered cash balance of 51.36 crore as on December 31, 2021. Acuité believes that the company's liquidity profile will continue to benefit from funding support from its promoters.

Outlook: Stable

Acuité believes that SMPL will maintain a 'Stable' outlook over the medium term supported by its established presence in the microfinance segment along with demonstrated ability to maintain asset quality and liquidity levels. The outlook may be revised to 'Positive' in case of higher than expected growth in loan portfolio while maintaining asset quality and capital structure. The outlook may be revised to 'Negative' in case of any headwinds faced in scaling up of operations or in case of significant deterioration in asset quality and profitability metrics. The outlook may be revised to 'Negative' in case of any deterioration in the capital structure

Key Financials - Standalone / Originator

| Particulars | Unit | FY21 (Actual) | FY20 (Actual) |
|---|---------|---------------|---------------|
| Total Assets | Rs. Cr. | 489.37 | 382.66 |
| Total Income* | Rs. Cr. | 45.66 | 44.78 |
| PAT | Rs. Cr. | 2.03 | 8.77 |
| Networth | Rs. Cr. | 135.45 | 104.29 |
| Return on Average Assets (RoAA) | (%) | 0.47 | 2.71 |
| Return on Net Worth (RoNW) | (%) | 1.70 | 10.98 |
| Total Debt/Tangible Net Worth (Gearing) | Times | 2.45 | 2.50 |
| Gross NPA's | (%) | 1.45 | 0.56 |
| Net NPA's | (%) | 0 | 0 |

*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

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Banks And Financial Institutions: <https://www.acuite.in/view-rating-criteria-45.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

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

Rating History

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|--------------------------------|-----------|-----------------|-----------------------------------|
| 04 Mar 2022 | Proposed Bank Facility | Long Term | 40.00 | ACUITE BBB+ Stable (Reaffirmed) |
| 10 Dec 2020 | Proposed Bank Facility | Long Term | 20.00 | ACUITE BBB+ Stable (Reaffirmed) |
| | Term Loan | Long Term | 20.00 | ACUITE BBB+ Stable (Reaffirmed) |
| 27 Mar 2020 | Proposed Bank Facility | Long Term | 40.00 | ACUITE BBB+ Stable (Assigned) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Quantum (Rs. Cr.) | Rating |
|----------------------|----------------|----------------------------------|------------------|----------------|----------------|-------------------|--|
| Not Applicable | Not Applicable | Proposed Long Term Bank Facility | Not Applicable | Not Applicable | Not Applicable | 11.40 | ACUITE BBB+ Stable Reaffirmed |
| Bank of Baroda | Not Applicable | Term Loan | 18-09-2021 | 9.25 | 30-09-2024 | 18.60 | ACUITE BBB+ Stable Reaffirmed |
| UCO Bank | Not Applicable | Term Loan | 24-09-2021 | 9.30 | 29-09-2024 | 10.00 | ACUITE BBB+ Stable Reaffirmed |
| Punjab National Bank | Not Applicable | Term Loan | 12-03-2020 | 11.85 | 30-04-2023 | 5.00 | ACUITE BBB+ Stable Reaffirmed |
| State Bank of India | Not Applicable | Term Loan | 16-03-2021 | 9.15 | 16-03-2024 | 30.00 | ACUITE BBB+ Stable Reaffirmed |
| UCO Bank | Not Applicable | Term Loan | 24-09-2021 | 9.30 | 29-09-2024 | 5.00 | ACUITE BBB+ Stable Reaffirmed |

Contacts

| Analytical | Rating Desk |
|---|--|
| Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294041 mohit.jain@acuite.in | Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in |
| Meghali Parmar Management Trainee-Rating Operations Tel: 022-49294065 meghali.parmar@acuite.in | |

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.

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