



Press Release
Svasti Microfinance Private Limited
December 18, 2024
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	180.00	ACUITE BBB+ Negative Reaffirmed Stable to Negative	-
Total Outstanding Quantum (Rs. Cr)	180.00	-	-
Total Withdrawn Quantum (Rs.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**) the Rs. 180.00 crore bank facilities of Svasti Microfinance Private Limited (SMPL). The outlook is ‘**Negative**’ and is changed from ‘**Stable**’ to ‘**Negative**’.

Rationale for Rating

The revision in the rating outlook factors in a significant decline in asset quality, collection efficiency, disbursements and profitability in H1FY25 which is due to the ongoing stress in the micro-finance (MFI) segment. The asset quality has deteriorated, marked by a GNPA of 4.09 percent and NNPA of 1.71 percent as on September 30, 2024, where the GNPA and NNPA was 1.60 percent and 0.89 percent respectively in March 31, 2024. Since lower collection efficiency rates is one of the predominant factors of the stress in the MFI space, SMPL has also struggled in this facet where collection efficiency has hovered between 88-89 percent. Due to a culmination of these factors the profitability has been affected in H1FY25 and they have been only been able to register a PAT of Rs. 9.24 Cr.

The rating also continues to factor SMPL’s established presence in microfinance sector along with comfortable capitalization levels supported by equity infusions at regular intervals. The ratings further factors expectations of further capital raising in the near to medium term which is critical to support the growth momentum. During H1FY25, the company disbursed loans amounting to Rs. 249.19 Cr. vis-à-vis Rs. 1035.63 Cr. during FY2024. Consequently, AUM reduced to Rs. 1143.43 Cr. as on H1FY25 from Rs. 1308.09 Cr. as on March 31, 2024. Further, the AUM stood at Rs. 1059.26 Cr. as on March 31, 2023. The rating is however, is constrained by geographical concentration in the state of Maharashtra (~47.73 percent of AUM as on September 30, 2024). The rating is further constrained by a highly leveraged capital structure with a gearing of 3.35 times as on September 30, 2024 (3.76 times as on March 31, 2024) albeit it is improving.

Going forward, Acuite believes that the company’s ability to raise capital, profitably grow its loan portfolio and improve its asset quality while containing credit costs 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. The company’s AUM stood at Rs. 1143.43 Cr. as on September 30, 2024.

Unsupported Rating

Not applicable

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 Ms Jaya Janardanan 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.

Adequate financial risk profile with a diversified funding mix

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. Further, in March 2023 Rs. 16 Cr. was infused by the existing shareholders and the company has plans on bringing in more capital during the year. The company's capital structure is supported by a Networth of Rs. 224.66 Cr. , total debt of Rs. 846.43 Cr. and resultant gearing of 3.77 times as on March 31, 2024. The company plans to raise Rs. 100 crore during the year FY2025, this infusion will be done by new investors. However, the dilution of the shares will happen equally. The capitalization levels of SMPL are adequate, with CAR being at 21.28 percent as on September 30, 2024. CAR majorly comprises of Tier I capital.

The company saw an increase in its Net Interest Income to Rs. 130.74 Cr. for FY 2024 from Rs. 75.46 Cr. for FY 2023. However in H1FY25 the Net interest income has been recorded at Rs. 72.01 Cr. which is a dip in performance given the higher write offs and provisioning that is being done. Resultantly, its profitability in H1FY25 stood at Rs. 9.24 Cr. as against Rs. 37.29 Cr. in FY2024.

Acuité believes, going forward, that the ability of the company to mobilise low-cost funding and its ability to deploy the funds profitably will be a key monitorable.

Weakness

Leveraged capital structure

SMPL is engaged in microfinance lending providing short term loans up to 12-24 months. The company extends micro-credit through the Joint Liability Group (JLG) model. The company's networth stood at Rs. 224.66 Cr. and total debt stood at Rs. 846.43 Cr. as on March 31, 2023. SMPL's gearing stood at 3.77 times as on March 31, 2024 (4.25 times as on March 31, 2023). The debt comprises term loans from Banks, NBFCs and FIs, NCD and others. SMPL is in talks to raise capital of ~Rs 100 Cr, this infusion will be done by new investors. To support the growth momentum SMPL would require further debt and considering the already leveraged capital structure the promoters may be required to infuse additional equity to support any future business growth. Acuité believes that company's ability to manage its gearing will be a key monitorable.

Risk inherent to microfinance segment

The activities of microfinance companies, like SMPL are exposed to geographical concentration risks. The top 3 states comprise ~79 percent of the overall portfolio. SMPL has concentration in Maharashtra (~48 percent of the overall portfolio), Uttar Pradesh (~15 percent) and Madhya Pradesh (~16 percent) as on September 30, 2024. It has 148 branches located over 96 districts as on September 30, 2024. 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. Moreover the collection efficiency has dropped to 88 percent at its worst and is incrementally improving as the firm traverses through the difficult period that the whole segment is going through. Therefore profitability is expected to reduce in FY25 and moreover the risk of asset quality deteriorating further would be a possible reality.

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

Stress in the Microfinance Segment

Acuite Ratings and research has addressed the significant stress levels in the MFI industry due to the higher borrower indebtedness which is directly attributable to the larger ticket sizes and loans taken by individuals that do not have the means to repay the loans taken which has led to the overleveraging and difficulty in maintaining a healthy collection efficiency ratio. Moreover, a multitude of evolved factors such as the deteriorating strength of the Joint Liability Group (JLG) model, higher attrition rates among staff in the field and the rise of systematic frauds at grass root levels has affected the collection efficiency in the microfinance segment.

ESG Factors Relevant for Rating

Svasti Microfinance Private Limited (SMPL) belongs to the NBFC-MFI sector which facilitates lending to the unbanked population. Some of the material governance issues for the financial services sector are policies and practices with regard to business ethics, board diversity and independence, compensation structure for board and KMPs, role of the audit committee and shareholders' rights. On the social aspect, some of the critical issues for the sector are the contributions to financial inclusion and community development, responsible financing including environmentally friendly projects and policies around data privacy. The industry, by nature has a low exposure to environmental risks. The entity maintains adequate transparency in its business ethics practices as can be inferred from the entity's disclosures regarding related party transactions, vigil mechanism and whistle blower policy. The board of directors of the company comprise of 5 directors. The audit committee formed by the entity majorly comprises of independent directors with the objective to monitor and provide an unbiased supervision of the management's financial reporting process. SMPL also maintains transparency in terms of disclosures pertaining to interest rate policy and its adherence to Fair Practice Code.

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

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 March 31, 2023. The company has cash and bank balance of Rs. 86.41 Cr. as on March 31, 2023. Acuité believes that the company's liquidity profile will continue to benefit from funding support from its promoters.

Outlook:

Negative

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY24 (Actual)	FY23 (Actual)
Total Assets	Rs. Cr.	1135.01	953.02
Total Income*	Rs. Cr.	174.00	103.48
PAT	Rs. Cr.	37.47	17.58
Net Worth	Rs. Cr.	224.66	168.52
Return on Average Assets (RoAA)	(%)	3.59	2.17
Return on Average Net Worth (RoNW)	(%)	19.06	11.5
Debt/Equity	Times	3.77	4.25
Gross NPA	(%)	1.60	1.33
Net NPA	(%)	0.89	0.44

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

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

Not Applicable

Any other information

None

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>
- Complexity Level Of Financial Instruments: <https://www.acuite.in/view-rating-criteria-55.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
20 Sep 2023	Proposed Long Term Bank Facility	Long Term	8.12	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	9.12	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	2.10	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	7.23	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	4.24	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	6.25	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	8.33	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	6.42	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	8.19	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	20.00	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	11.25	ACUITE BBB+ Stable (Assigned)
	Term Loan	Long Term	9.00	ACUITE BBB+ Stable (Assigned)
	Term Loan	Long Term	20.80	ACUITE BBB+ Stable (Assigned)
	Term Loan	Long Term	21.59	ACUITE BBB+ Stable (Assigned)
	Proposed Term Loan	Long Term	37.36	ACUITE BBB+ Stable (Assigned)
26 Jun 2023	Proposed Long Term Bank Facility	Long Term	0.13	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	10.77	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	2.41	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	8.27	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	4.84	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	7.50	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	10.42	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	6.87	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	8.79	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	20.00	ACUITE BBB+ Stable (Reaffirmed)
28 Mar 2022	Proposed Long Term Bank Facility	Long Term	11.40	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	5.00	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	30.00	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	5.00	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	18.60	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	10.00	ACUITE BBB+ Stable (Reaffirmed)
04 Mar 2022	Proposed Long Term Bank Facility	Long Term	40.00	ACUITE BBB+ Stable (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	5.28	Simple	ACUITE BBB+ Negative Reaffirmed Stable to Negative
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	15.95	Simple	ACUITE BBB+ Negative Reaffirmed Stable to Negative
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	0.49	Simple	ACUITE BBB+ Negative Reaffirmed Stable to Negative
UCO Bank	Not avl. / Not appl.	Term Loan	27 Sep 2022	Not avl. / Not appl.	30 Dec 2026	3.91	Simple	ACUITE BBB+ Negative Reaffirmed Stable to Negative
Dhanlaxmi Bank Ltd	Not avl. / Not appl.	Term Loan	30 Sep 2023	Not avl. / Not appl.	30 Sep 2026	4.86	Simple	ACUITE BBB+ Negative Reaffirmed Stable to Negative
SBM Bank (India) Ltd.	Not avl. / Not appl.	Term Loan	16 Jun 2023	Not avl. / Not appl.	16 Sep 2025	12.50	Simple	ACUITE BBB+ Negative Reaffirmed Stable to Negative
Union Bank of India	Not avl. / Not appl.	Term Loan	30 Sep 2022	Not avl. / Not appl.	01 Oct 2025	6.67	Simple	ACUITE BBB+ Negative Reaffirmed Stable to Negative
Small Industries Development Bank of India	Not avl. / Not appl.	Term Loan	01 Nov 2022	Not avl. / Not appl.	01 Nov 2025	5.33	Simple	ACUITE BBB+ Negative Reaffirmed Stable to Negative
ICICI Bank Ltd	Not avl. / Not appl.	Term Loan	28 Feb 2023	Not avl. / Not appl.	28 Feb 2025	9.09	Simple	ACUITE BBB+ Negative Reaffirmed Stable to Negative
Canara Bank	Not avl. / Not appl.	Term Loan	30 Sep 2023	Not avl. / Not appl.	30 Sep 2026	13.50	Simple	ACUITE BBB+ Negative Reaffirmed Stable to Negative
UCO Bank	Not avl. / Not appl.	Term Loan	30 Sep 2023	Not avl. / Not appl.	30 Sep 2026	11.19	Simple	ACUITE BBB+ Negative Reaffirmed Stable to Negative
Suryoday Small Finance Bank	Not avl. / Not	Term Loan	30 Sep 2023	Not avl. / Not	05 Oct 2025	10.44	Simple	ACUITE BBB+ Negative Reaffirmed

Limited	appl.			appl.				Stable to Negative
Capital Small Finance Bank	Not avl. / Not appl.	Term Loan	27 Mar 2023	Not avl. / Not appl.	27 Mar 2025	3.52	Simple	ACUITE BBB+ Negative Reaffirmed Stable to Negative
Union Bank of India	Not avl. / Not appl.	Term Loan	28 Dec 2023	Not avl. / Not appl.	31 Dec 2026	12.48	Simple	ACUITE BBB+ Negative Reaffirmed Stable to Negative
Indian Overseas Bank	Not avl. / Not appl.	Term Loan	30 Dec 2023	Not avl. / Not appl.	31 Dec 2026	15.00	Simple	ACUITE BBB+ Negative Reaffirmed Stable to Negative
ICICI Bank Ltd	Not avl. / Not appl.	Term Loan	28 Feb 2024	Not avl. / Not appl.	10 Feb 2026	10.00	Simple	ACUITE BBB+ Negative Reaffirmed Stable to Negative
Capital Small Finance Bank	Not avl. / Not appl.	Term Loan	29 Mar 2024	Not avl. / Not appl.	21 Mar 2026	8.33	Simple	ACUITE BBB+ Negative Reaffirmed Stable to Negative
Dhanlaxmi Bank Ltd	Not avl. / Not appl.	Term Loan	30 Mar 2024	Not avl. / Not appl.	30 Mar 2027	10.00	Simple	ACUITE BBB+ Negative Reaffirmed Stable to Negative
Tourism Finance Corporation of India	Not avl. / Not appl.	Term Loan	27 Mar 2024	Not avl. / Not appl.	15 Mar 2026	13.14	Simple	ACUITE BBB+ Negative Reaffirmed Stable to Negative
DCB Bank Limited	Not avl. / Not appl.	Term Loan	30 Dec 2023	Not avl. / Not appl.	28 Feb 2026	8.32	Simple	ACUITE BBB+ Negative Reaffirmed Stable to Negative

Contacts

Mohit Jain Senior Vice President-Rating Operations	Contact details exclusively for investors and lenders
Shabad Palakkal Associate Analyst-Rating Operations	Mob: +91 8591310146 Email ID: analyticalsupport@acuite.in

About Acuité Ratings & Research

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